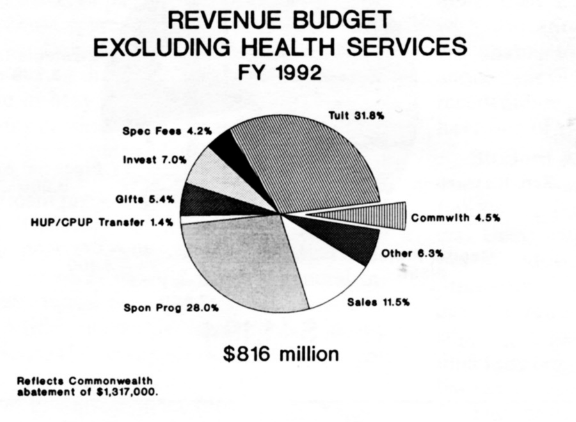
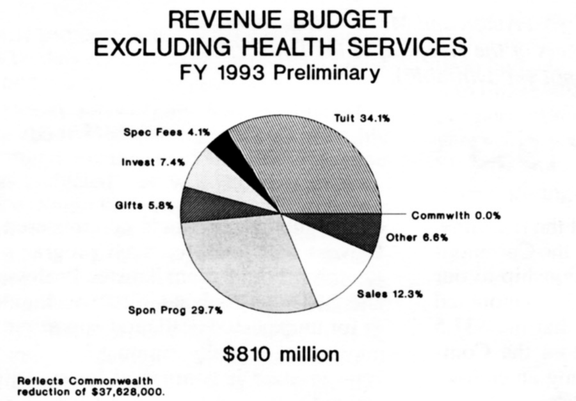
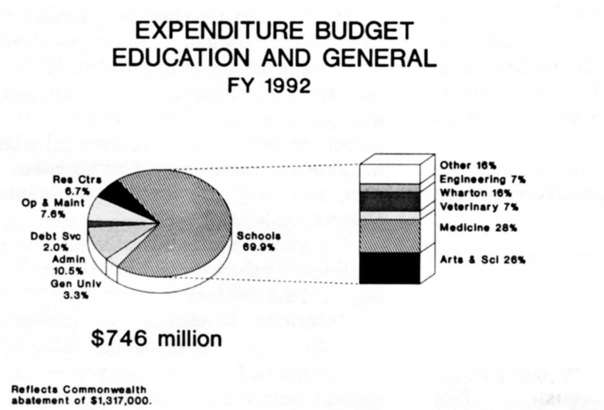
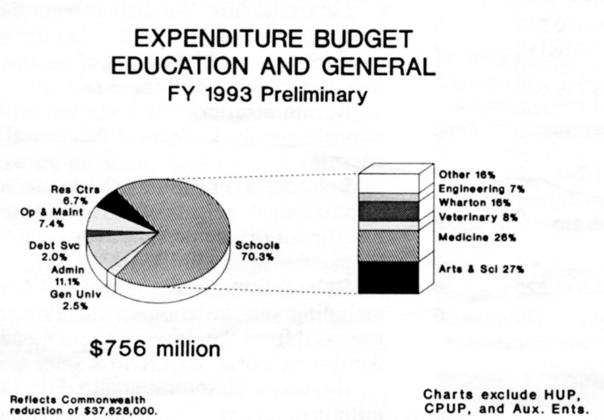
On March 20, 1992, President Sheldon Hackney, Provost Michael Aiken, and Executive Director of Resource Planning and Budget Steve Golding outlined the critical issues confronting the University for FY 1993 in terms of the budget and the University's relationship with the Commonwealth of Pennsylvania. This four-page insert summarizes their presentation, beginning with an excerpt from the President's overview (which appeared in full in Almanac March 24) and continuing on the next three pages with a synopsis of the details given by the Provost and Mr. Golding.









Principles and Strategies for the FY1993 Budget

Highlights of the President's Strategies

(Excerpts;for full text see Almanac March 24)

First, we must protect the academic core of the University from the perturbations in state funding… Though we will be living in reduced circumstances, we must work to maintain our capacity to make essential investments in programs and facilities.

Second, we must protect the people of Penn to the greatest degree possible. To the extent that budget reduections imply a smaller workforce, we should use normal attrition to achieve the shrinkage, and resort to layoffs only *in extremis*.

Third, we need to be exceedingly careful not to do long term damage to Penn and its standing among the world's great universities in order to meet short term goals. We need to develop a strategy that may take three to four years to accomplish this.

Fourth, beyond our budget plan for FY 1993. we need to accelerate efforts at the University, both at the Center and in the Schools, to reengineer our operations to take costs out of our budgets in ways that will not affect our central mission.

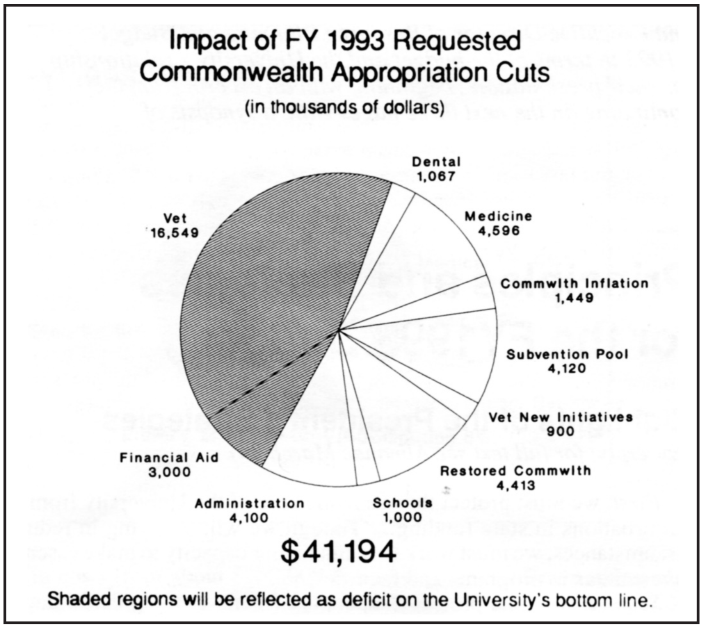
[The president then spelled out five long-term strategic moves: (1) cut at least 600 positions—academic and non-academic, faculty and staff—by 1995, through a combination of attrition, reassignment and retirement, all directly related to cuts in programs and services. (2) postpone and reevaluate all non-critical capital projects that are planned but not yet underway; the IAST, Biomedical Research Building, and Law Library construction, and the completion of renovations of College and Logan Halls to go forward, but some $35 to $40 million deferred. (3) honor financial aid commitments to the class of 1996, but considering alternative approaches in the future. (4) keep to the low tuition increase planned for 1992-93 but revisit the question for future years. (5) recommend to the Trustees a deficit for FY1993 that will in corporate the entire School of Veterinary Medicine's requested Commonwealth appropriation of $16.5 million and $3.0 million of Commonwealth funding that supported student financial aid, noting "If the Vet School funds are not restored we may have no alternative but to close the School, for without Commonwealth support, it will be able to sustain neither the academic standards that have made it a premier institution nor the quality of service its clients have come to expect." He then continued:]

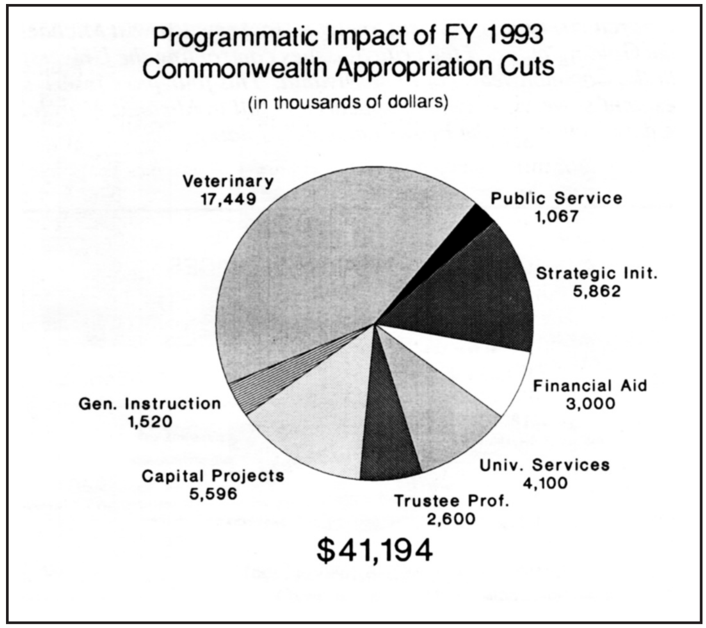
For FY 1993 this strategy requires:

1. The Schools of Dental Medicine and Medicine will be asked to absorb their full line item cuts either through expenditure reductions, use of restricted resources, or increases in service fees to ensure balanced FY 1993 school budgets. This will recognize $5.663 million of the lost funding.

2. The magnitude of the cut facing the School of Veterinary Mcdicine—43% of their operating budget-requires that the school budget a deficit of its full appropriation request (absent new programs) of $16.5 million.

3. The $17.7 million request for the University's General Instruction line will be handled much in the same way it was last year. We will cut central administrative costs by $4.5 million and use one time funds to provide a transitional period while we shrink further. The Provost will eliminate programs and reallocate central University funds totaling almost $8.0 million. The schools will be asked to initiate a three-year program of restruturing to achieve cuts totaling $1 million annually in their spending plans. The remaining $3.0 million we will budget as a deficit for FY 1993, but will work to absorb it over the coming year.





As they went into more detail at the March 20 briefing, the presentations by Provost Aiken and Mr. Golding dealt with the University's academic and general budget only and did not discuss the budgets of the hospital of the University of Pennsylvania and the Clinical Practices (information about these budgets is not yet available).

The Shape of the General Budget for FY1993

Since the turn of the century, the University of Pennsylvania has received an appropriation from the Commonwealth of Pennsylvania. Approximately half of that support is restricted to the School of Veterinary Medicine the only veterinary school in Pennsylvania and to the Schools of Medicine and Dental Medicine; the other half is unrestricted and for that reason a critical component in the University's budget, providing us with enormous flexibility in our ability to invest in academic, research and service programs. Although we have been able to significantly increase the University's endowment over the past several years—it is now at $800 million—we fall far short of what a University of our size and stature should have if we are to remain an institution of the first rank. So while the appropriation from the Commonwealth may seem small in relationship to our total budget (the budget for FY 1992 amounted to $1.335 billion), we estimate that the $37.5 million we currently receive from the Commonwealth is equivalent to having an endowment almost twice of what exists now.

The Commonwealth appropriation to the Veterinary School accounts for 40 percent of its operating costs; it allows the Dental School to offer reasonably-priced dental services to residents of West Philadelphia who otherwise might have to forego dental care; for the School of Medicine, it is a vital resource for their instruction program. It is also a significant component of the subvention funds administered by the Provost and goes for such programs as the Research Foundation, Trustee Professorships, and the Undergraduate Initiatives Fund as well as for unexpected academic opportunities that may arise. Finally, some $3 million of the appropriation is earmarked for student financial aid.

For FY 1993, the University requested nearly $41 .2 million from the Commonwealth of Pennsylvania: a base appropriation of $37.6 million, the same as last year; a 7.2 percent increase to the base to make up for the previous three-year period in which we experienced almost no inflationary increase in Commonwealth support; and $900,000 for new programs at the Veterinary School.

The chart at left above reflects our plan for dealing with the loss of this $41.2 million from the FY 1993 budget:

Veterinary Medicine: An appropriation of $16,549,000 is needed to maintain the School of Veterinary Medicine; we will ask the Trustees to approve a deficit in that amount.

Financial Aid: We shall also ask the Trust-ees to approve adeficitof the S3 million that we earmark for financial aid out of the Instruction line of our appropriation.

Administration: $4.1 million will be removed from the budgets of the central administration.

Schools: $1.0 million will be removed from the combined budgets of the schools, or about four-tenths of one percent over what they anticipated to spend in FY 1993.

Subvention Pool: About $4.1 million, including our inflationary increase, will be removed from the subvention pool budget under the control of the Provost.

Restored Commonwealth Funds: $4.4 million of restored Commonwealth funds from

University of Pennsylvania
FY1990 to FY1993 (Projected) Commonwealth Appropriation

Line Item	FY1990 Appropriation	FY1991 Appropriation	FY1992 Appropriation	Jan. 3.5% Abatement	FY1992 Adjusted	FY1993 (***)
Instruction	16,633,000	16,050,850	16,633,000	(582,155)	16,050,845	0
Medical Instruction	4,596,000	4,435,150	4,596,000	(160,860)	4,435,140	0
Dental Clinics	1,067,000	1,029,650	1,067,000	(37,345)	1,029,655	0
* Veterinary Instruction	8,005.000	7,724,800	8,005,000	(280,175)	3,786,660	
* New Bolton Center	3,755,000	3,786,500	3,924,00	(137,340)	3,786,660	0
* Food & Animal Clin.	2,022,000	2,039,050	2,113,000	(73,955)	2,039,045	0
* Ctr for Animal Health & Productivity	1,234,000	1,244,850	1,290,000	(45,150)	1,244,850	0
* Veterinary PA Resident Loan F'giveness Prog.	0	0	0	0	0	0
* Animal Health Diagnostic & Research Operations	0	0	0	0	0	0
Totals **	**37,312,000**	**36,310,850**	**37,628,000**	**(1,316,980)**	**36,311,020**	**0**
Total Vet	15,016,000	14,795,200	15,332,000	(536,620)	14,795,380	0

* Items included in Combined Vet Appropriation

** Above figures do not include approximately $550,000 for Educational Equipment (***)Proposed by Governor

FY 1992 that had been allocated for special investments in academic programs and research initiatives will be removed.

Other Programs: The School of Medicine will lose the $4.6 million it receives from the Commonwealth and the School of Dental Medicine the $1.067 million it receives for maintaining the Dental Clinics. The Governor also cut public assistance payments for dental services, which could represent an additional revenue loss to the Dental School of about $400,000.

The deficit that we will ask the Trustees to approve in May amounts to $19,545,000; the remaining portion of the lost appropriation is to be absorbed by cuts in our budget.

The loss of Commonwealth funds will have a significant programmatic impact on the University. The second chart on page 2 shows the direct impact of these losses on the budget lines for such items as the Vet School, general instruction, capital projects, strategic initiatives for one-time academic investments in the schools, and University services. More specifically,

— it puts into question the future of the Veteri -nary School.
— capital projects in the School of Medicine will be delayed and their funds reallocated for operations.
— classroom renovations will be slowed only about $1.0 million will be spent this summer rather than the $3.1 million that had been budgeted—as will deferred maintenance. Some key programs will move forward, such as the Institute for Advanced Science and Technology, the Law Library, Biomedical Research Building I, and the renovations of College and Logan Halls.
— the Trustee Professorship program will be suspended, although those facultynow holding the title will continue to be supported. Schools that have searches underway may continue their process but no subvention funds to support the new position will he available centrally.
— the Undergraduate Initiatives Fund will remain intact in FY 1993 but at a reduced level, with awards coming from reserves. Future funding will be difficult if the Commonwealth funds are not restored.
— the support targeted for the Social Science Research Institute, an extension of the PARSS Program (Program for Assessing and Revitalizing the Social Sciences) is now in question.
— the planned $300,000 increase in the Research Foundation has been eliminated and this fund will be held to its current $1.3 million level.

Two funds that will not be reduced during the coming fiscal year are the $7.0 million budgeted for the Graduate Fellowships Fund and the $3.4 million in matching funds—an increase of $200,000—budgeted for research assistants.

These are the immediate impacts. But the loss of Commonwealth support also has long range significance.

It is quite clear that if we must remove $37.5 million out of our budget, we must also make the University a smaller institution; we do not have the flexibility in our revenue stream to offset a loss of this magnitude. Furthermore, we do not think it prudent to offset such a loss by recommending a substantial increase in tuition.

Long-Term Considerations

Tuition Policy: The 5.9 percent increase in tuition and fees that we are calling for is the same figure that we proposed last fall, continuing the trend of declining tuition and fee increases that have been seen over the last four years. The last time we set tuition and fees lower than 5.9 percent was in FY 1974, when we had a tuition rate increase of 5.5 percent. We are unable to question our peer institutions about their plans for tuition, but given the few recent public announcements, we will probably have one of the lowest.

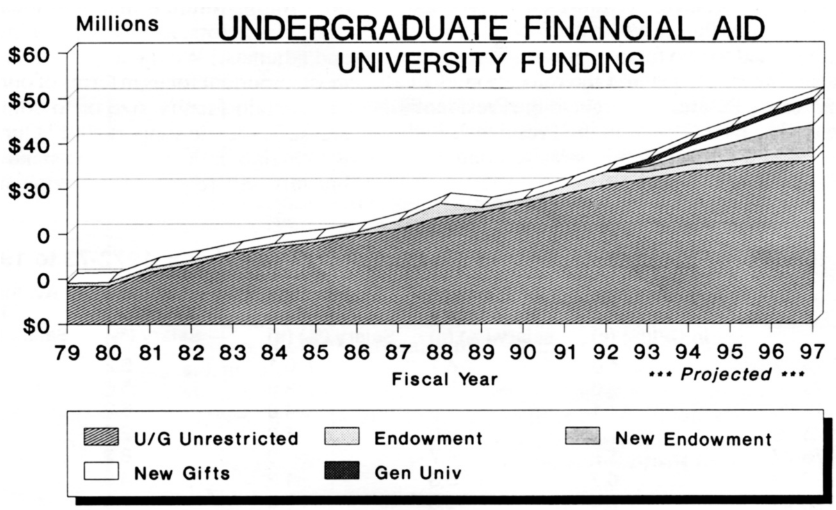
Student Aid: Another major factor in the budget is financial aid. Prior to FY 1993, we funded our financial aid budget by using general University resources and about $1.5 million of endowment income. After considerable discussion this past year, we developed a strategy that relies more on restricted revenues to support our undergradtuate financial aid budget, thus relieving the pressure on the unrestricted budget.

The chart on Undergraduate Financial Aid, below, illustrates Lhis shift. Forexamplc, in FY 1992, about 27.5 percent of undergraduate tuition budgeted in the schools was used to support financial aid. The new program will reduce this percentage to about 27.1 percent in the first year offset by campaign initiatives to raise $1.250 million of new endowment and $500,000 in term giving. By FY 1997, our goal is to have only about 24.6 percent of tuition dollars supporting financial aid.

Also last spring, we initiated a program whereby schools received dollar-for-dollar relief of their unrestricted financial aid costs for every restricted dollar they raised. Over a five year period, our goal is to raise $1 25 million of new endowment that will generate $6.25 million of ongoing revenues for undergraduate financial aid and $5.0 million of term funds that will further assist this program. Finally, the Provost has increased the amount of funds from the subvention pool that are used to support financial aid from the current $4.0 million to $5 million, thus reducing some of the pressure on the unrestricted budgets of the schools.

Critical Investments: Computing and library are two areas that have grown at fairly consistent rates in comparison to the overall growth rate for the remainder of allocated costs. For FY 1993, the Library has received additional funding for acquisitions and Computing has been given funds to support academic computing initiatives.

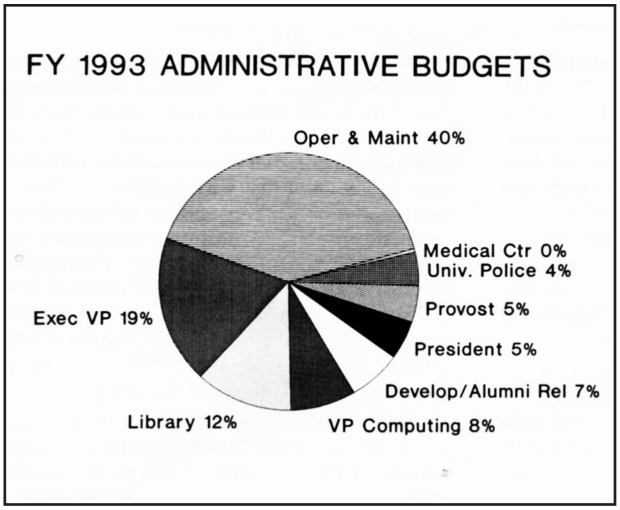
Public Safety is an area that will not be touched by reductions in administrative costs. Over the past two years, Public Safety has received significant increases in funding to provide a safer and more secure environment for our students, faculty, staff, and visitors. The FY 1993 budget includes additional resources for this program but also additional resources for Escort Services, which has experienced a

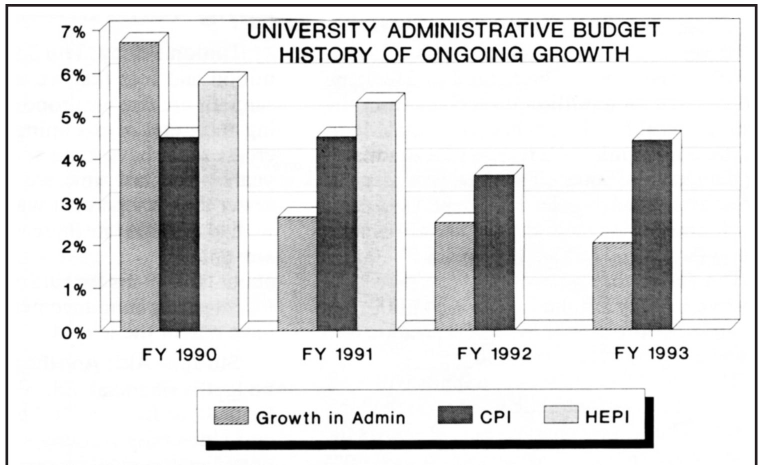


Proposed Tuition and Fees for Academic Year 1992-93

	1990-91	1991-92	Change	1992-93	Change
Undergraduate Tuition	$13,420	$14,347	6.9%	$15,198	5.9%
General Fee	1,220	1,297	6.3%	1,390	7.2%
Technology Fee	250	250	0.0%	250	0.0%
Undergraduate Tuition & Fees	*14,890*	*15,894*	*6.7%*	*16,838*	*5.9%*
Residential Cost (Double Room Quad)	3,162	3,346	5.8%	3,548	6.0%
Dining Cost (15-meal plan)	2,100	2,220	5.7%	2,354	6.0%
Total Undergraduate	**$20,152**	**$21,460**	**6.5%**	**$22,740**	**6.0%**
Graduate Tuition	$14,608	$15,619	6.9%	$16,546	5.9%
General Fee	902	965	7.0%	*1,038	7.6%
Graduate Tuition & Fee	**$15,510**	**$16,584**	**6.9%**	**$17,584**	**6.0%**
Professional General Fee	708	756	7.1%	814	7.7%

* Graduate and Professional General Fees for 1992-93 reflect an increase of 7.2% plus a GAPSA-approved surcharge of $3 dedicated to graduate and professional student activities. An approved surcharge of $6 was added in 1991-92.





Note Growth in budget reflects amount available to cover all salary pool and current expense increases Programmatic additions are not included in these figures

rise in costs from about $250,000 three years ago to $800,000 today. We believe that these programs are important and will continue to invest resources in them.

The Campaign budget is another area that has been shielded from budget reductions. We have raised nearly $800 million toward a $1.0 billion goal, with about two years to go. We think it would be very short-sighted to reduce support for the Campaign as we believe it will provide long-term stability for the University.

The chart, Rate of Growth in FY 1993 Administrative Budgets, highlights the areas of critical importance. It must be understood, however, that the growth in the President's area is attributed to two factors: increased costs for outside counsel fees and the relocation of the University Relations Budget to the President's area. The base growth in the President's budget, like the other administrative centers, is slightly over two percent.

Downsizing and Choices: We are going to continue to monitor and pay close attention to reducing the proportion of dollars needed for central administrative costs. As the chart showing the History of Ongoing Growth reflects, we have been able to achieve this goal in real terms absent new initiatives. Our success has been achieved partially by requiring administrative centers to fund salary increases, contractual increases, and other inflationary costs *out of their base*. This has resulted in a real shrinkage at the core of the administration.

An area of growth that has major implications for the future is that of academic support staff instructors, lecturers, teaching assistants and adjuncts. We must ask ourselves what is most important for us in terms of our mission—to maintain faculty size or to continue to increase academic support staff? Our preference is to maintain the size of the standing faculty, but this will require downsizing in the other faculty categories.

Over the next three years, the schools will have to begin to shrink the size of their administrations or to reduce the cost of providing services. This will mean that hard choices will have to be made about what areas the University should be investing its resources.

Salaries: We are keenly aware that to remain a great university, we must provide competitive salaries in all of the markets in which our employees participate. The average salary increase for full professors in FY 1991 was about 4.8 percent against a projected inflation rate of 3.5 percent for a real increase of 1.3 percent. The salary pool for FY 1992 was 4.0 percent. For FY 1993 it will be 4.5 percent and is slightly higher due to our goal of keeping our faculty salaries eompetitivenotonly in terms of inflation but also in terms of our peer institutions and outside markets.

For A-1s and A-3s, salaries must be competitive in the local job market, although for some A-1 administrative positions, we also compete in a national market. The University has been aggressively moving toward increasing the minimum salaries for staff, particular A-3s. Our goal is to position ourselves as a smaller institution with a highly qualified work force that is well paid.

* * *

In closing, it is important to recognize that the proposed budget for FY 1993 balances a number of specific elements: tuition, salaries, allocated costs, and administrative charges. It also makes investments and provides resources that protect the academic core of the University, while waiting until our relationship with the Commonwealth is solidified. We hope that in protecting the institution for FY 1993, we are providing an opportunity over the next twelve months to put together a rational strategy for going forward.

Without the appropriation from the Commonwealth, Penn will be forced to reduce its size and will be less of an economic engine for Philadelphia and the region. Reductions in overall spending for operations, construction, and the workforce are likely targets that cannot be overlooked. The University is committed to persuading the legislators in Harrisburg to restore these funds and the same tactics that were employed successfully last year will be utilized again to accomplish this goal.

Changes in Faculty Salaries and the Consumer Price Index, 1972-73 to 1991-92

	Average Increase in CPI(%) (c)	Av. Increase in Monetary Salary (%) (a)	Av. Increase in Real Salary (%) (b)	Av. Increase in Monetary Salary (%)	Av. 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	7.7	3.5
1988-89	4.6	NA	NA	6.6	2.0
1989-90	4.8	NA	NA	7.2	2.4
1990-91	5.4	NA	NA	6.3	0.9
1991-92	estimated 3.5	NA	NA	4.8	1.3

Sources: William G. Bowen and Julies 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 in crease in monetary salary less the percentage increase in the Consumer Price Index
(c) CPI calculated at academic year ending 6/30