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**UNIVERSITY BUDGET
2008-2009**

INTRODUCTION

The 2008-2009 budget of \$974.9 million represents a \$71.9 million or 7.96% increase over the 2007-2008 budget. However, when increases for Temple University Physicians (TUP) and Auxiliary Enterprises are considered, the Education and General Funds increase is \$58.9 million or 6.52%. The TUP projections included in the University's 2008-2009 budget are provisional and therefore subject to change. The current 2008-2009 Temple University Health System projections are also provisional, but are not reflected in the University only-budget.

The proposed budget supports non-discretionary increases, commitments to strengthen academic programs, enhanced research and alignment of student services with enrollment. The sources and anticipated uses of the \$71.9 million increase are highlighted in table 1 below.

TABLE 1.

Change in Source and Use of Funds FY'08 vs. FY'09 (000)		
<u>Increase vs. 2007-2008 budget</u>		
	\$	%
<u>Sources/Revenues:</u>		
1 . Tuition and Fees	47,952	5.3
2 . Clinical	10,212	1.1
3 . Commonwealth Appropriation	2,434	0.3
4 . Indirect Cost Recovery	4,188	0.5
5 . Auxiliary Enterprises	2,804	0.3
6 . Other ¹	4,277	0.5
7 . Total Sources	71,867	7.96
 <u>Uses/Expenditures:</u>		
8 . Enrollment and Tuition based	22,973	2.5
9 . Compensation and Benefits	14,465	1.6
10 . Clinical	10,212	1.1
11 . Strategic Initiatives	5,519	0.6
12 . Utilities	4,470	0.5
13 . Debt Service	3,050	0.3
14 . Auxiliary Enterprises	2,608	0.3
15 . Supplies Inflation	1,941	0.2
16 . Research Office	1,080	0.1
17 . Other ²	5,549	0.6
18 . Total Uses	71,867	7.96
19 . Net Change	-	-

1 Other sources on line 6 includes investment income (\$2.0M), Malpractice (\$1.2M), Income Producing Properties (\$.8M) and sales and services (\$.3M)

2 Other uses on line 17 includes insurance (\$1.7M), TUP adjustment (\$1.3M), Income Producing Properties (\$.6M), library acquisitions (\$.75M), program start-ups (\$.7M), and sales and services (\$.2M)

Of the \$58.9 million General Funds increase, \$53.33 million are for non-discretionary expenditures and \$5.52 million for discretionary priorities.

The proposed tuition rate increase for all students, Pennsylvania resident and non-resident is 5.90%. This is the same tuition increase approved in fiscal years 2006-2007 and 2007-2008. Through a process of active and responsible budget management, this proposed increase is at the lowest possible level. Strategic reprogramming of expenditures resulted in more than \$5.0 million of budget reallocations including \$500,000 to increase funding for scholarships. In addition, the budget reflects concentrated efforts to enhance resources, including a more than \$4.2 million increase in research related indirect cost recovery. Increases to the General Activities Fee and the Student Recreation Fee are also reflected in the budget.

Although fall 2008 undergraduate enrollment, including freshman and transfers, is projected to decline 6.2% compared to last fall, overall undergraduate enrollment is expected to be flat. This reflects a deliberate effort to reduce incoming freshman enrollment by 11.3% from 4,400 to 3,900. Graduate enrollment is projected to be the same as last year, which reverses a five year trend of declining graduate enrollment.

As of this writing, action has not been taken on Temple University's 2008-2009 Commonwealth appropriation by the General Assembly. As a result the proposed budget includes an estimated appropriation based on the Governor's Budget recommendation.

A deeper review of the proposed budget including an explanation of its components and assumptions are explained in the following sections. A complete line-item detail of the proposed 2008-2009 budget may be found in appendix A.

BUDGET HIGHLIGHTS

2008-2009 Total Budget

The total 2008-2009 budget of \$974,851,000 includes \$128,094,000 in clinical activity and \$71,796,000 for Auxiliary Enterprises. The resulting Education and General Funds budget is \$774,961,000, which represents a \$58,851,000 or 6.52% increase over the 2007-2008 budget.

Education and General Funds

The components of the Education and General Funds budget include the resources necessary to support the University's basic teaching, research, co-curricular and public service programs. A total of 68.1% of the resources supporting the 2008-2009 Education General Funds budget come from tuition and fees.

The sections that follow focus on the assumptions affecting the Education and General Funds budget only.

EDUCATION AND GENERAL FUNDS REVENUE CHANGES and ASSUMPTIONS

The budget includes increased revenue of \$58,851,000 from tuition and fees, Commonwealth appropriation, research and other sources.

Tuition and Fees

A 5.90% tuition rate increase is recommended for Pennsylvania resident and non-residents and all undergraduate and graduate programs and is reflected in the budget.

When deciding on a tuition rate increase for 2008-2009 serious consideration was given to several factors including the current economic climate, the likely Commonwealth appropriation, recent enrollment and financial aid trends, Temple University's historical tuition rates and increases, peer/competitor tuition rates and differential school and college rates.

A detailed schedule of the proposed 2008-2009 tuition rates may be found in appendix B.

Tuition Differential

In addition to the existing tuition differentials, a tuition differential is recommended for the College of Engineering which will raise tuition rates for undergraduate full-time Engineering students (above the regular tuition increases) by \$400 per year for the next five years and for undergraduate part-time and graduate Engineering students by \$13 and \$20 per credit hour respectively for five years.

Mandatory Student Fees

Two mandatory student fees are recommended to increase in 2008-2009.

1. General Activities Fee – increase the full-time fee \$20 per year from \$70 to \$90 and the part-time fee \$10 per year from \$10 to \$20. Revenue from the increase will be allocated to address deferred maintenance of athletic facilities.
2. Student Recreation Fee – increase the full-time fee \$20 per year from \$60 to \$80. Revenue from the increase will finance capital improvements to student recreational facilities.

Commonwealth Appropriation

The Governor's recommendation is for a 1.50% Education and General increase, no increase for disadvantaged students and a .50% increase for medical education programs which continue to be funded through the Department of Public Welfare. This blended increase of 1.42% yields approximately \$2,659,000 in additional funding. However, the appropriation figure used in the budget is \$225,000 less or \$2,434,000. This difference is the result of a base adjustment in the 2007-2008 non-preferred portion of the appropriation funded through the Department of Public Welfare.

This increase is significantly below the CPI (Consumer Price Index) and HEPI (Higher Education Price Index), which are both estimated to increase by 3.9% in 2008-2009. As support from the state becomes more limited, Temple has become more reliant on tuition revenue to offset its growth in operating costs. For example, if the appropriation increased an additional 2.58% to

4.0%, the required tuition increase would be reduced by \$4,902,000 or 1.37% from 5.90% to 4.53%.

Research Activity-Indirect Cost Recovery

Overall University indirect cost recovery is expected to increase \$4,188,000 or 21.2%, which is largely the result of increased research activity in the College of Science and Technology and the School of Medicine. A significant portion of this increase is related to the successful recruitment of new research focused faculty.

Other Sources

General Fund revenue from other sources is projected to increase \$4,277,000. This increase is the result of the following:

- \$2,000,000 increase in investment income, which is anticipated to grow as a result of current market conditions, additional funds on hand to invest and a revised target asset allocation
- \$1,154,000 in investment income from the Good Samaritan physician medical malpractice program
- \$807,000 in new rent from income producing properties
- \$316,000 from increased miscellaneous fees, sales of journals and the Dental and Podiatry clinics

EDUCATION AND GENERAL FUNDS EXPENDITURE CHANGES and ASSUMPTIONS

Budgeted Education and General expenditures increase by \$58,851,000; \$53,332,000 for non-discretionary commitments including enhanced research and \$5,519,000 for strategic funding initiatives.

Non-discretionary Commitments

Increases for non-discretionary commitments are necessary to maintain the University's operations at their current level. *This year's non-discretionary increases account for 4.36% or 73.9% of the total 5.90% proposed tuition rate increase* and include the following:

- \$22,973,000 for Enrollment and Tuition driven activity – Increases to address the current enrollment including the 4.75% Plant Development Fund transfer (\$2.1M), 12.51% Scholarship transfer (\$5.5M), enrollment-based faculty (\$3.3M), realignment of the full-time/part-time faculty ratio (\$3.0M), differential tuition (\$4.9M), Academic Auxiliary Tuition and Student Fees (\$3.7M) and tuition remission (\$.4M).
- \$14,465,000 for Salary and benefits – This figure reflects average compensation increases of 3.70% reflecting contractual increases as well as estimated increases for non-represented employees. The budget includes projected increases for medical and prescription drug (10.9%), retirement (TIAA/Fidelity 3.1%), social security (FICA 4.0%) and workers' compensation (5.0%).

- \$4,470,000 for Utilities - Global and national events have had a dramatic affect on the cost of fuel and utilities. Additionally, new facilities including the Medical School, Alter Hall and Tyler will add a total of 902,000 gross square feet of building space and account for about \$2,700,000 of the expected increase.
- \$3,050,000 for Debt Service – To properly align the budget with projected actual.
- \$1,941,000 for Inflation - A 2.0% University-wide supplement to account for contractual increases and rising prices for basic supplies and library serials and monologues. In 2007-2008 only academic units received an inflationary supplement; administrative units were assessed a 1.25% across the board budget cut.
- \$1,080,000 for Research – Investment to enhance the capacity for generating new research and indirect cost recovery.
- \$5,549,000 for other expenditures – Including increases for insurance (\$1.7M), TUP overhead adjustment (\$1.3M), library collection acquisitions (\$.75M), program start-up (\$.7M), Income Producing Properties (\$.6M) and sales and services (\$.2M).

Discretionary Priorities

Increases for discretionary priorities are necessary to fulfill prior commitments of the Board of Trustees and to address structural issues in the area of student services related to increased enrollment. *This year's discretionary priorities account for 1.54% or 26.1% of the total 5.90% proposed tuition rate increase* and include the following:

- \$2,235,882 for Enrollment growth and new facilities – Including operations personnel and associated costs to properly staff and manage new facilities and additional faculty lines in priority programs.
- \$1,102,925 for General Education - Implementation of year one of the General Education curriculum as approved by the Board of Trustees in December 2004.
- \$926,595 for Student Services enhancements – Additional academic advisors, part-time mental health clinicians and student activities staff.
- \$633,598 for Compliance and Institutional Advancement – Two compliance officers in Environmental Health and Safety; one for safety issues related to the Department of Homeland Security and a Laser Safety Officer required by OSHA as well as additional fundraising staff to target priority programs and build the infrastructure.
- \$620,000 for University Counsel – To properly align the budget with projected actual.

OTHER MATTERS – AUXILIARY ENTERPRISES

Auxiliary budgets are presented in a separate budget document included as part of the 2008-2009 budget. Auxiliary operations are expected to generate approximately \$71.8 million in revenue in 2008-2009. Of this total, \$46.5 million (64.8%) is generated through University Housing.

Three auxiliaries – Temple University Press, Intercollegiate Athletics and Off-Campus Housing require a subsidy from the University totaling \$11.2 million with Athletics accounting for \$9.3 million of this total. This Athletics' operating subsidy is less than the \$18 million figure reported to the NCAA which includes additional items such as scholarships.

The Bookstore and Other Auxiliaries contribute \$1.8 million to the University's Operating Budget.

A detailed schedule of the proposed 2008-2009 Auxiliary budgets may be found in appendix D.

BUDGET POLICY REVIEW

Temple is experiencing an extraordinary level of positive momentum. Enrollment is at an all-time high. The average SAT scores for the incoming class are at the highest level ever. There is \$500 million in capital investments currently underway. The University expects to exceed its goal of raising \$350 million in private fund raising by the end of 2009. Temple is attracting more students from outside the Greater Philadelphia area while maintaining our commitment to Philadelphia. Temple is clearly on the move. To maintain this momentum, Temple must have the financial strength to continue to make strategic investments that are important to its students, faculty, and the Greater Philadelphia community as a whole.

This success is not without challenges. First, the numbers of high school graduates will decline by 8% over the next decade, and Temple will face increasing competition with other universities for a smaller pool of students. Temple must provide a clear advantage over the opportunities at other schools, and the fact that we have tuition rates at 20% below that of Pitt and Penn State is a key competitive advantage. Second, Commonwealth support is declining and Temple will continue to rely more heavily on tuition increases. Diversifying revenues by growing research funding and private fundraising, especially the endowment, have become financial imperatives. Active budget management, including the reallocation of \$5 million in expenditures in the proposed budget, is also a key to being competitive.

To continue this positive momentum, it is critical that a more entrepreneurial approach be developed to incentivize Temple's academic and administrative leaders to more efficiently use their resources and develop new and alternative sources of revenue. To that end, a Budget Policy Review Committee, under the leadership of the Chief Financial Officer, is conducting a thorough review and assessment of the current budget policies. By the fall of 2008, this committee will develop and recommend new budget policies that promote an entrepreneurial approach to support the strategic initiatives anticipated by the Academic and Master Facilities Plans and align with the functionality and enhancements inherent in the Enterprise Resource Plan approved by the Board of Trustees in 2007. Together, these initiatives have one tightly integrated focus: to transform

Temple into one of the finest urban universities in America. This budget provides a solid foundation to advance this goal.