TEMPLE UNIVERSITY®

NARRATIVE DISCUSSION
PROPOSED OPERATING BUDGET
FY 2008

INTRODUCTION

For FY 2008, a balanced budget is proposed for Temple University – with revenues and expenditures totaling approximately $717.6 million. This exceeds the FY 2007 approved budget by $38.7 million (5.7%). It reflects the University's current operating environment, and responds to its strategic priorities. The proposed budget identifies projected resources and expenditures for the University only. Separate budgets have been prepared for Auxiliary operations, Temple University Physicians and Temple University Health System.

The primary factors that shape the proposed budget for next year include the following –

- The 1.9% increase in state support that has been recommended by the Governor and is currently under consideration by the legislature;
- Continued growth in enrollment but at a slower pace;
- Mandatory commitments totaling $23.3 million – much of which is required by collective bargaining agreements;
- Required funding for strategic priorities – including faculty, student advising, campus safety, and upgrade of the University's administrative systems – as well as the identified need to manage cost and market pressures in certain programs;
- The ongoing commitment to keeping education affordable for Temple students.

Budget decisions arising from consideration of these factors are explained in the sections that follow. They address anticipated revenue from enrollment and other sources, budget expenditures, planned cost reductions and the multi-faceted tuition proposal for FY 2008.

ANTICIPATED INCREASES IN REVENUE

The budget includes an increase of $10.2 million from the commonwealth appropriation, investment and other income, and from anticipated enrollment growth.

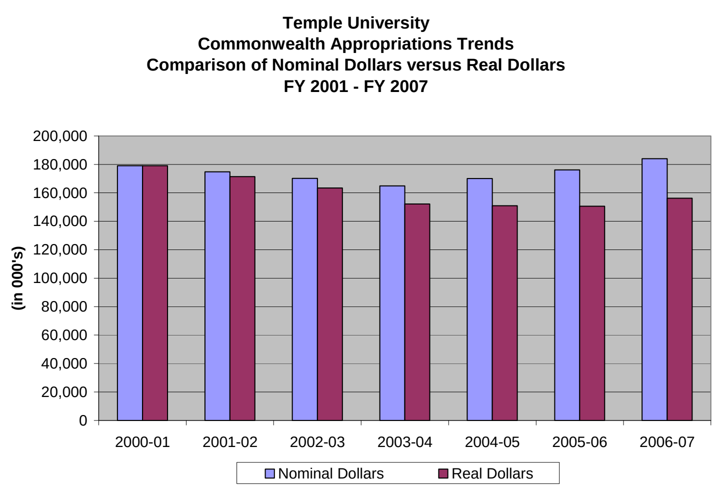
Commonwealth Appropriation

For FY 2008, the Governor has recommended an increase of 1.9%[1] in the commonwealth appropriation for state-related institutions – lower than the current rate of inflation. This would provide approximately $3.6 million in additional funding for next year. The combination of the proposed increase for FY 2008 and an additional amount appropriated for FY 2007 (after approval of the budget in June) totals $4.5 million.

The trend in Temple's state appropriations since FY 2001 is shown in the following table:

Fiscal Year	Amount Appropriated	Annual change		Cumulative change	
		Amount	Percent	Amount	Percent
FY 2001	179,021				
FY 2002	174,766	(4,255)	(2.4%)	(4,255)	-2.4%
FY 2003	170,149	(4,617)	(2.6%)	(8,872)	-5.0%
FY 2004	164,941	(5,208)	(3.1%)	(14,080)	-8.1%
FY 2005	169,989	5,048	3.1%	(9,032)	-5.0%
FY 2006	176,135	6,146	3.6%	(2,886)	-1.4%
FY 2007	183,908	7,773	4.4%	4,887	2.7%

Of the total $14.1 million in reductions in the appropriation that occurred between FY 2002 and FY 2004, only one-third has been recovered to date. The addition of $3.6 million in FY 2008 will further offset the previous losses in funding, but it will not make up for losses in state support attributable to inflation and enrollment growth. The following graph shows that even while appropriations have grown past the FY 2001 amount; it still falls below that level when adjusted for inflation.



[1] The Governor's proposal provides for a 2.0% increase in the Education and General budget, no increase in support for disadvantaged students, and a 1.3% increase for medical education programs which will continue to be funded through the Department of Public Welfare from federal Medicaid sources – for a blended increase of 1.9%.

As cumulative support from the state becomes more limited, Temple has become more reliant on tuition revenue to offset its growth in operating costs. Tuition currently comprises two-thirds of the university's budgeted revenue.

ENROLLMENT TRENDS

Since FY 1997, Temple University has experienced annual increases in student enrollment with aggregate growth during this ten-year period of approximately 6,700 students (23.6%). Enrollment growth peaked in FY 2002, and has continued to increase annually to its FY 2007 level of 34,218. The growth rate experienced in the last ten years has waned, and the composition of total enrollment has also changed. For FY 2008, enrollment is planned to remain relatively constant – with anticipated growth of less than 1.0% percent over last year. The anticipated increase in tuition revenue from enrollment growth for FY 2008 is projected at $4.5 million.

Undergraduate enrollment is reflected in the budget at growth of 1.4% for next year. New and transfer enrollment are budgeted to remain constant with Fall 2007 levels – at approximately 4,000 students. Retention of existing students is forecast at 87%.

(Based on freshman deposits that were due by May 1st, enrollment may exceed originally projected amounts by as much as 300 students. This increase is the result of an unexpectedly high yield on admissions – up from 37.6% last year to 41.1% this year. This is an unprecedented increase, but the impact on actual fall term registrations – and tuition revenue -- will not be fully known until September.)

Declines in graduate enrollment – experienced in the past five years – are expected to continue in FY 2008. Reductions in graduate enrollment have changed the composition of total enrollment as shown in the following table.

Fiscal Year	Graduate Enrollment[2]	Decline from Previous Year	Graduate Enrollment as a % Total Enrollment
2002	7,905	553	24.2%
2003	7,638	(267)	22.9%
2004	7,106	(532)	20.9%
2005	6,472	(634)	19.0%
2006	6,233	(239)	18.2%

Credit hours generated by graduate enrollment has declined by a cumulative 18.7% since FY 2002[3]. Some recovery occurred in FY 2007, but the Office of Policy and Planning Analysis projects a further decline for FY 2008. This trend has an adverse impact on tuition revenue and

[2] Amount shown is Fall headcount enrollment as reported by the Office of Planning and Policy Analysis.
[3] Most graduate students at Temple are assessed tuition at a per credit hour rate.

for FY 2007, the 4.0% decline in graduate enrollment equates to a loss of tuition revenue of approximately $2.2 million.

Declines are in part attributable to a downturn in graduate applications in certain disciplines. An additional contributing factor, however, is strategic decisions and operating factors within specific schools and colleges. Actions are underway to address these internal issues, as well as to manage the external factors and their affect on graduate enrollment. For FY 2008, graduate headcount enrollment is projected to decline by an additional 4.0% for budget purposes, and credit hour generation is assumed to decline by 2.0%.

Professional student enrollment is projected at the same level as last year.

Other Revenue Sources

Investment income is expected to increase next year by approximately $1.6 million due to an anticipated favorable interest rate climate. The budget for Indirect Cost Recovery continues at the FY 2007 level of $19.6 million due to no projected increase in extramural funding. Offsetting this increase is a reduction of $400,000 in rent generated from income-producing properties.

FY 2008 BUDGETED EXPENDITURES

More than 75% of total University expenditures -- budgeted at $717.6 million for FY 2008 -- support academic and research programs and 70% of total expenditures are incurred for employee compensation. Budget expenditures for next year include increases for mandatory commitments and funding for strategic priorities. These increases in cost are offset by budget savings totaling $3.0 million.

Mandatory Commitments

Mandatory commitments include increases in employee salaries, and growth in employee benefits costs. For FY 2008, these expenditures are budgeted at an increase of $23.3 million.

Salary commitments for slightly more than half of Temple University employees are set by provisions of collective bargaining agreements. For these employees, estimated salary increases total $7.4 million – an average increase of 3.9%. For non-represented employees, budgeted salary increases total $4.7 million – averaging 3.3%.

Employee benefits are budgeted at an additional $10.0 million. Health care costs – medical insurance and prescription drugs – comprise approximately one-third of the total cost of employee benefits. These costs are expected to increase by approximately $7.0 million (11.0%). Nationally, health care costs are increasing in the range of 11.0% to 15.0% -- spurred largely by prescription drug costs, an aging population and greater use of technology.

Approximately half of total benefits expense is attributable to retirement costs – which include employer FICA and the University match of employee contributions to retirement plans. These costs increase at approximately the same rate as salaries – equating to a budgeted increase of $3.0 million – including the actuarially determined provisions for post retirement benefits.

The amount budgeted this year for total utilities expense – at $26.3 million – will continue at that level in FY 2008. The cost of energy sources – especially oil and gas -- is closely monitored by Facilities Management, and is managed through hedge contracts or advance purchases which have been useful in mitigating the effect of increases in these resources on total annual expense.

Other commitments, while not mandatory, are either prudent or highly desirable. These costs include inflationary increases on library materials – serials and monologues – that require update on an annual basis and premium rate increases on liability insurance. These items together are budgeted to increase by $1.2 million.

Required Funding to Support Strategic Priorities

The proposed budget includes approximately $10.2 million in strategic investments including the following:

- Required funding for the proposed implementation of an ***entity-wide administrative systems solution*** totals $38 million. Of this amount, $18 million has been identified from various sources; the remaining $20 million requires funding over each of the next five years. An allocation of $3.4 million is earmarked in the budget for this purpose. The additional $600,000 needed to reach the $4 million goal each year will be resourced through existing operating budgets.

- Application of the enrollment-based budget methodology results in additional funding of $1.6 million required to maintain a constant ratio of part-time faculty lines – funded in previous years – to full-time lines. An additional $1.3 million is added for ***part-time faculty lines*** anticipated as a result of enrollment growth in schools and colleges.

- A commitment was made in FY 2005 to provide a total of $5.0 million for expansion of the University's ***library resources***. To date, $3.5 million of this commitment has been funded. The remaining $1.5 million commitment is proposed for funding at $750,000 per year in FY 2008 and FY 2009.

- School and college budgets often require a supplement to meet escalating market salary rates for new faculty. The Provost's fund for supplementing salary dollars (''known as ***"top-up"***) in schools and colleges will be increased by $250,000 for this purpose.

- Advising resources have not been expanded to support the growth in enrollment at the university creating a strain for both students and existing staff. A proposed allocation of

$485,000 is included in the budget for ***9.0 FTE advisors*** that will be assigned to schools and colleges by the Provost.

- An allocation of $450,000 is proposed to support ***technology transfer*** resources.

- An allocation of $300,000 in ***merit-based financial aid*** is provided for the third consecutive year to support recruitment of high performing students to Temple.

- Migration to the new ***General Education*** curriculum has already begun with a pilot program during the current academic year. Further development requires faculty and administrative support. Additional funding of $228,000 is proposed for this purpose, bringing total funding to $1.0 million.

- An allocation of $200,000 is proposed to support faculty and staff recruitment in the ***College of Pharmacy's highly regarded Quality Assurance/Regulatory Assurance (QA/RA) program***. The portion of the QA/RA program that is offered at off-campus sites will be converted to an incentive program that will generate additional funding as the enrollment increases beyond specified levels.

- Administrative support in Institutional Advancement is funded at $262,000 to handle the increased volume of mailings, acknowledgements and publications required as part of the ***comprehensive capital campaign***.

- To offset the additional cost of ***off-campus housing*** for Temple University students, an allocation of $185,000 is provided. In order to meet the housing needs of a growing residential student population Temple arranges for space at selected off-campus locations. This subsidy covers the gap between the rent charged for that off-campus space and student housing rates.

- ***Campus safety*** is always a paramount concern, and $181,000 is set aside to provide three additional security kiosks at targeted areas on campus.

- A joint program between the University Counsel and the Law School to create a ***legal clinic*** that provides internships for Law School students is also funded at $60,000.

- Enhancement of ***undergraduate research*** programs at the University is funded at $50,000.

In accordance with past practice, amounts are set aside from growth in tuition revenue to increase financial aid and the plant development fund budgets. These allocations will be discussed as part of the discussion on proposed increase in tuition and fees.

COST REDUCTIONS

Careful consideration has been made of program funding needs for FY 2008. Many worthy programs are deferred in order to manage costs for the coming year. Of critical importance is examination of current costs to identify opportunities for savings.

For FY 2008, University units will be required to absorb inflationary increases on their operating budgets – requiring a reassessment of priorities and making appropriate sacrifice in the use of available resources. By foregoing this increase, an annual 2.0% allocation for inflation on general expenses – totaling approximately $1.6 million -- is avoided. Further, each administrative unit will reduce operating budgets by 1.25% -- generating an additional $1.4 million in annual savings. Together these items total $3.0 million which is equivalent to a 1.0% increase in tuition rates.

PROPOSED INCREASE IN TUITION RATES

Taken together, mandatory commitments and strategic priorities total $33.5 million. Revenues generated from enrollment growth, the commonwealth appropriation and investment income along with budget reductions total $11.3 million and will partially offset these costs. However, a budget gap of $22.2 million remains, and a tuition increase is proposed that will provide remaining funding to balance the FY 2008 proposed budget. Additionally, special needs exist in certain University units that are experiencing cost and/or market pressures, and a tuition solution is proposed to address those needs as well.

The Tuition Advisory Committee recommends that increases in tuition rates for the upcoming year should fall between 4.0% and 8.0%. An increase of 4.0% would cover only non-discretionary commitments, and provide no available funding for strategic priorities. On the other hand, an increase of 8.0% would be tremendously burdensome for Temple students.

For FY 2008, Temple's tuition recommendation includes a university-wide increase, a limited increase for students enrolled in the School of Podiatric Medicine and implementation of differential tuition rates for the College of Pharmacy and the combined Fox School of Business and Management and the School of Tourism and Hospitality Management programs.

University-wide increases in Tuition Rates

Increases in university-wide tuition rates are proposed as follows:

1. An increase of 5.9% in university-wide tuition rates for all students, except those enrolled in the School of Podiatric Medicine.

2. An increase of 4.0% for all students enrolled in the School of Podiatric Medicine.

3. An increase in the Computer Technology fee paid by all students from $200 per academic year to $250.

Since FY 2001, tuition rates have increased by an average of 6.5%. The proposed increases fall below that average and will generate approximately $25.0 million in additional revenue.

A lower rate of increase is proposed for the 307 students enrolled in the School of Podiatric Medicine to promote a favorable competitive position for the program. Competition for students among the eight other Podiatric programs around the country is keen. Increasingly, another source of competition has emerged as students often choose a broader program of study in medicine over a Podiatry specialty. Thirty-eight percent of the school's total enrollment is non-resident, and Temple's non-resident tuition rate – at $28,358 in FY 2007 – is the highest in the nation.

Consistent with University policy, 12.51% of the tuition revenue generated from the proposed increase, which equates to $3.7 million, is set aside for financial aid. An additional $1.4 million – 4.75% of the budgeted revenue increase – will be allocated to the Plant Development Fund. The increase in the Computer Technology fee totals $1.3 million and will be distributed directly to schools and colleges – after a set aside for the plant development fund -- for use in hiring technical staff.

A complete schedule of proposed FY 2008 tuition rates is included as part of the overall FY 2008 budget package.

The following table summarizes the change in tuition cost resulting from these increases in rates[4].

	Resident			**Non Resident**		
	FY 2007	**FY 2008**	**Change**	**FY 2007**	**FY 2008**	**Change**
Undergraduate	$10,180	$10,802	$622	$18,224	$19,320	$1,096
Graduate[5]	9,698	10,288	590	13,928	14,770	842
Podiatric Medicine	26,242	27,322	1,080	28,858	30,042	1,184

Differential Tuition Rate Proposals

In FY 2007, most undergraduate students are assessed tuition at an annual rate of $10,180 (for in-state students). Four undergraduate programs assess differential tuition rates to its students. These programs and the current differential rates are shown in the following table:

[4] Full-time tuition rates include mandatory fees.
[5] Graduate students are assessed tuition based on the number of credit hours in which they are enrolled. The amount calculated is based on 18 credit hours which is the typical credit hour load for a graduate student.

Program	No. of Students	FY 2007 Undergraduate In-State Tuition	Differential	
			Amount	Percent
Tyler School of Art	1,156	$12,206	2,026	19.9%
Health Professions	2,000	12,196	2,016	19.8%
Tyler School of Art – Architecture program	293	10,648	468	4.6%
Boyer College of Music and Dance	553	10,336	156	1.5%

The differentials exist in these programs because of the relatively high cost of instruction. For FY 2008, tuition rates in these programs will increase by the university wide increase of 5.9%.

For FY 2008, differential tuition is proposed for two additional programs – the College of Pharmacy Doctor of Pharmacy (Pharm.D.) program and the combined programs of the Fox School of Business and Management (FSBM) and the School of Tourism and Hospitality Management (STHM). Each is discussed separately.

College of Pharmacy

The College of Pharmacy proposes an increase in its tuition rates of $1,000 for each of the next four years. This increase would provide resources for investment in faculty and to meet the needs of regulatory and accreditation guidelines. The recommended increase is in addition to the proposed University-wide increase of 5.9%, and is made on the basis of program costs. The Pharm.D. Program is costly and requires a high level of faculty contact – especially in its clinical component where a student/faculty ratio of 1 to 1 is required.

There are 570 students enrolled in the program. The combined impact of the proposed differential and the 5.9% university wide increase in FY 2008 is additional cost of $2,020 (11.9%) for in-state students. Non-Pennsylvania residents will pay an additional $2,514 (9.9%).

The proposed differential will provide a cumulative $2.3 million in additional revenue by FY 2011 that will be used to hire 10.0 FTE faculty and 3.0 FTE staff.

For FY 2008, additional revenue of $570,000 is projected. Of this amount, a total of $98,300 is set aside for financial aid and the plant development fund – leaving $471,000 available for direct investment in the Pharmacy program.

Fox School of Business and Management
School of Tourism and Hospitality Management

The Fox School of Business and Management, along with the School of Tourism and Hospitality Management (FSBM/STHM), propose an aggregate increase of $2,226 for undergraduate students over a four-year period from FY 2008 to FY 2011. A full-time graduate student who is a resident of Pennsylvania will pay an additional $3,311 per year; and the part-time resident graduate credit hour rate will increase by $127 over the four-year implementation period.

The proposed differential would be executed as follows:

1. An increase of 2.0% in undergraduate tuition rates is proposed for FY 2008;

2. An increase of 2.0% in rates assessed to part-time graduate students is proposed for FY 2008;

3. An increase of 12.0% in rates charged to full-time graduate students is planned in FY 2008 and again in FY 2009;

4. Additional increases in undergraduate tuition and the part-time graduate credit hour rate will occur from FY 2009 until FY 2011 to bring total differential revenue from all students to the desired level of $14.8 million.

This proposed increase is in addition to the university-wide increase of 5.9%, and is predicated on a combination of market and cost factors. Many other business programs – locally and nationally – assess a differential tuition rate. Demand in these programs is high, and the quality of the Fox program is evident in its national rankings. To preserve the quality of the programs, high caliber faculty members must be recruited. The required salaries for business faculty have escalated significantly, and the school's existing budget is no longer sufficient to compete effectively on a national level.

The number of students affected by the planned differential totals approximately 6,000 in the Fox School of Business and an additional 625 in the School of Tourism and Hospitality Management.

Additional revenues generated from this differential total $14.8 million by FY 2011 and will be used to support recruitment of tenure-track faculty, strengthening of the doctoral and MBA program, and enhancement of student services.

The proposed differential increase would generate $1.6 million in tuition revenue in FY 2008. After offsets for financial aid and the plant development fund, $1.3 million would be available for direct investment in the school.

For FY 2008, the combined impact of the proposed differential and the 5.9% university-wide increase would require an in-state undergraduate student to pay an additional $815 (8.0%). An in-state graduate student enrolled on a full-time basis would pay an additional $2,470 (17.9%).

For both the College of Pharmacy and the FSBM/STHM proposals, annual evaluation of performance and goals will occur and decisions made on how to proceed in the following year.

Projected revenue amounts assume FY 2007 enrollment will be maintained. Students in these programs were consulted as these proposals were developed and presented.

Additional Investment in Programs with Existing Differentials

Although differential tuition rates previously existed at Temple in selected programs, there was no common set of principles used to administer resources and monitor performance. A framework articulating these principles was proposed this year by the Tuition Advisory Committee to address (a) circumstances that might warrant consideration of differential tuition for programs, (b) required action to manage risks inherent with differential tuition rates, (c) the need to monitor performance and take corrective action, as necessary, and (d) continued investment in subsequent years from revenue growth.

For the four programs with existing differential tuition rates, proceeds were distributed to each program at the time of initial approval. There has been no additional investment in these programs in subsequent years. In order to apply consistent principles to these schools, an allocation of $241,100 is proposed which will be distributed as follows.

School/College or Program	Amount
College of Health Professions	$125,600
Tyler School of Art	101,000
Tyler School of Art, Architecture	7,500
Boyer College of Music and Dance	7,000
TOTAL	$241,100

In subsequent budget years differential tuition will be distributed to all programs by applying this same process and principles.

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After consideration of proposed increases in tuition for FY 2008, additional revenue totaling $33.3 million results, and prescribed allocations to financial aid and the plant development fund are summarized in the following table.

Description	Projected Tuition Revenue	Financial Aid @ 12.51%	Plant Development Fund @ 4.75%
	(Amounts in thousands)		
University-wide increase of 5.9%[6]	$24,657.0	$3,084.6	$1,171.2
Enrollment growth	4,526.1	566.2	215.0
Total Tuition Available to Meet Expenditures	29,183.1	3,650.8	1,386.2
FSBM/STHM differential	1,598.9	200.0	75.9
Technology Fee	1,302.0	N/A	61.8
Academic Auxiliaries[7]	670.0	N/A	N/A
College of Pharmacy differential	570.0	71.3	27.1
TOTAL	$33,324.0	$3,922.1	$1,551.0

OTHER MATTERS

In addition to the proposed budget funding that has already been identified, certain one-time allocations will be made from FY 2007 budgetary savings. To date, approximately $10.0 million has been identified in budgetary savings for the current fiscal year. Programs totaling $4.9 million have been earmarked for funding from this source.

Auxiliary budgets are presented in a separate budget document included as part of this package. Auxiliary operations are expected to generate approximately $69.0 million in revenue during FY 2008. Of this total, $43.0 million (62.3%) is generated through University Housing.

Two auxiliaries – Temple University Press and Intercollegiate Athletics – require subsidy from the University totaling $11.5 million. The Bookstore and Other Auxiliaries programs provide a combined contribution of $1.6 million to the University's Operating Budget. Some auxiliaries, as identified in Budget Policies, transfer 13.0% of total revenues to the Operating Budget to offset the cost for administrative support provided by the University.

A commitment of $500,000 exists to fund the Temple Housing Ownership program. Under this program, the University will offer financial assistance to employees, including faculty and staff, toward the purchase of a home in certain designated areas surrounding the University's main and

[6] Includes revenue generated from increase in Computing Technology fee
[7] Includes programs that operating in a self-funding manner – such as Executive MBA, International MBA, and Temple University Rome. Revenue generated is budgeted directly to the program.

health science campuses in North Philadelphia. This commitment will be funded from auxiliary surpluses and/or other non-Operating Budget resources.

SUMMARY

Many priorities exist for the University – including strengthening of academic programs, management of faculty resources, construction of major facilities, and fundraising. This is an exciting time at Temple, and the many issues that the University faces require careful scrutiny of how to best allocate its limited resources. The proposed budget that is presented to the Budget and Finance Committee reflects that consideration.