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Professor Charles Walcott
Dean of the University Faculty
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Dear Charlie,

I offer the following summary of the activities of the Financial Policies Committee during the 2005-06 academic year. Our committee met monthly throughout the year, devoting attention primarily to the issues of faculty salaries and faculty age distribution, two continuing items from the previous year(s). Additional topics considered included graduate student support, facilities and administrative costs, and the University endowment.

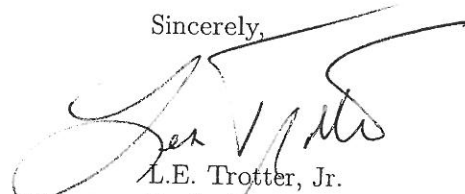
Issues considered 2005-06

- Age distribution of the faculty – During the Fall Semester, the committee completed its discussions on the *aging* of the University faculty. Previously, the committee had used a simple procedure to estimate the faculty's future age profile based on historical data on the number of faculty members in various age groups. In particular, the committee had used this procedure during 2004-05 to obtain a (conservative) estimate that over the coming decade the University will experience significant growth, from the present 27% to over one-third, in its faculty members at age 60 and above. This is in sharp contrast with the *faculty flow model* currently used by University administration to predict the faculty's age distribution, which predicts little change in this percentage. The actual change for the present year was checked by the committee and found to be consistent with its earlier prediction. A memo was sent this past December alerting the University administration to this discrepancy and calling for serious consideration of the issue. To date, no response has been received by the FPC.
- Faculty salaries – This past year was the fifth, and final, year in the faculty salary initiative enacted by President Hunter Rawlings. The goal of this program was to raise Cornell salaries to the average figure for certain peer institutions specified at the start of the program; the comparative groups consisted of 10 institutions each for the Endowed and Contract divisions of Cornell. For the Contract Colleges, this goal was exceeded by 4%, while for Endowed Cornell, the composite salary figure remains 1.1% below that of the peer group. Both figures represent impressive gains. Indeed, for the entire University the average salary increase for the five-year period is over 30%, in comparison with an average increase of 18% for the peer institutions. In view of the evident success of the salary improvement initiative, the FPC prepared a resolution for the Faculty Senate in acknowledgement and appreciation of the key roles played by Peter Stein, Hunter Rawlings, Biddy Martin, and Carolyn Ainslie in initiating and sustaining this effort. Lack of a quorum at the May 2006 meeting caused postponement until Fall 2006 for formal introduction of this resolution. It is important that the FPC continue to monitor the faculty salary issue annually.

- Graduate student tuition/support – The question of uniform graduate tuition continues to be under review by the Graduate School; this was first discussed by the FPC in 2004-05. In September 2005, Dean of the Graduate School Sunny Power discussed trends in graduate student funding with the committee. There has been, particularly over the past seven years, a University-wide upward trend in the number of University fellowships accompanied by a downward trend in the number of external fellowships. The committee indicated that there was a need to quantify this trend in terms of its effect on annual budget allocations. Dean Power agreed, and indicated that she would return to the committee for further discussion once these figures were available.
- Facilities and administrative costs – Jeff Silber, a Senior Director in the Accounting Department, provided the FPC with an explanation of the current indirect cost rate negotiation procedure and discussion of how various rates across the University affect research programs. The latter topic elicited considerable response from the committee, centered mainly around the issue of how uneven University subsidy of research across academic units was warranted. Also discussed was the extent to which differing rates from various sponsors affects research project selection by the faculty.
- University endowment – Don Fehrs, the Chief Investment Officer for Cornell, presented to the committee a broad summary of recent activity concerning the University endowment. Among the topics discussed were the effects of recent changes in the payout rate of the endowment, changes in long-term investment strategy designed to increase investment potential while diversifying holdings to protect against significant loss, and performance of the Cornell endowment relative to that of peer institutions.

As you know, the Financial Policies Committee played a key role in bringing the issue of faculty salaries to the attention of the University administration. I am very pleased to have been involved with the FPC on this issue from its inception and particularly grateful to have been able to serve as Chair of the FPC during this final year of the salary improvement initiative. Thank you for this opportunity.

Sincerely,



L.E. Trotter, Jr.
Professor