Stanford University Budget Plan

2003/04

Submitted for Action to the
Board of Trustees
June 12-13, 2003

This publication can also be found on the World Wide Web at:
http://www.stanford.edu/dept/pres-provost/budget/plans/plan04.html

Executive Summary

To The Board of Trustees:

I am pleased to submit Stanford University's 2003/04 Budget Plan for your approval. The Budget Plan has two parts. The first is the Consolidated Budget for Operations, which includes all of Stanford's anticipated operating revenue and expense for next year. The second is the Capital Budget, which is set in the context of a multi-year Capital Plan.

Stanford's 2003/04 Consolidated Budget for Operations reflects an anticipated deficit of $19 million on $2.423 billion of revenues, $2.343 billion in expenditures, and $99 million of transfers. The entirety of this deficit reflects the planned use by schools and academic support units of expendable reserves, which are projected to drop from $882 million to $863 million during 2003/04.

$674 million of Stanford's Consolidated Budget is categorized as general funds. These funds can be used for any university purpose. General funds of $554 million are allocated directly by the Provost, while the remaining $120 million flow to units in accordance with previously agreed-upon formulas with the Graduate School of Business, the School of Medicine, the Hoover Institution, and the Continuing Studies Program. The general funds component of the Consolidated Budget has a projected $2.9 million surplus for 2003/04.

The Capital Budget calls for $151.6 million in capital expenditures next year, down from $266 million in 2002/03. These expenditures are in support of a three-year Capital Plan that, if fully completed, would require $837 million in total project expenditures (down from last year's $1.068 billion Capital Plan).

The budgets for the Stanford Hospital and Clinics (SHC) and the Lucile Packard Children's Hospital at Stanford (LPCH), both separate corporations, are not included in this Budget Plan.

CONTEXT

The budget for 2003/04 reflects our best efforts to balance the needs of a great university with the difficult financial realities brought on by continuing weakness in the national and local economies. In building the budget we are faced with several challenges—a more than 20% increase in health care costs, the first reduction in support from the endowment in recent years, a difficult environment for fundraising, and increased need for financial aid among our students (a second-order result of the weak economy). Despite these obstacles, this budget incorporates the support needed to sustain the excellence of our teaching and research programs. It also supports the completion and operation of several important new facilities, including the Clark Center and the Lokey Laboratory.

We anticipate a small deficit in the Consolidated Budget for Operations. This deficit is centered principally in the School of Medicine and the School of Humanities and Sciences. These schools will be drawing down reserves, which have been built up over the past decade, for capital projects and important non-recurring faculty recruitment and support costs.

When we last reported on the budget outlook to the Trustees and the Faculty Senate in December 2002, we projected a $25 million shortfall in the general funds component of the Consolidated Budget. Since that last public report, several additional factors worsened the outlook, including:

– Reduced investment income projections	($8.7 million)
– Increased employee benefits costs	($3.8 million)
– Additional debt service and insurance costs	($2.0 million)

Without any offsetting improvements or corrective actions, these changes would have yielded a $40 million general funds deficit. Through the budget development process, however, we were able to eliminate the projected shortfall entirely, through the following actions:

– Eliminating the merit salary program for one year	$8.0 million
– Increasing undergraduate and graduate tuition	$5.0 million
– Revising the Medical School formula	$7.2 million
– Miscellaneous revenue enhancements	$4.1 million
– Reductions in general funds allocations to the schools and administrative units	$23.4 million
– Selected general funds additions to the schools and administrative units	($5.3 million)

Together these actions resulted in a general funds budget with a modest surplus of $2.9 million.

One of the most important factors in achieving the slight surplus was the elimination of the merit salary raise program. The decision to forego raises was not taken lightly. But the university's business does not slow down in response to a weak economy. Implementing a salary freeze will allow us to minimize layoffs and avoid increased workloads for the remaining staff. We have been gratified by the support and good will shown by both faculty and staff in response to the announcement of the salary freeze.

The largest budget adjustment was the $23.4 million cumulative reduction taken by the academic and support units across the university. We asked all units to develop plans for 5%, 7.5%, and 10% reductions in their general funds allocations. All of the schools and administrative support areas took this charge very seriously and produced creative and responsible options for review by the University Budget Group. After careful study, we have built into next year's budget a set of general funds adjustments (cuts and central revenue enhancements) averaging 6.1% of these units' applicable general funds base. These reductions were not achieved through "across the board" cuts: reductions in individual units ranged from 3% to a full 10%.

As this is the second consecutive year of budget reductions in the general funded units, the impact of these cuts goes beyond belt tightening. Because schools will have fewer general funds to allocate to their departments, some departments are cutting support staff or relying on restricted funds until they can restructure their operations. Inevitably, there will be service reductions in a number of the administrative areas. For example, library hours will be trimmed modestly, and the growth in the library materials budget will not keep pace with inflation; there will be fewer computer training classes and technical consultants; and there will be some reductions in services at Vaden Student Health Center. Moreover, there will be layoffs as a result of these reductions. While we will not know the final number until later in the summer, there will be approximately 100 layoffs. We will be working with human resources officers around the university to find ways to accommodate the affected individuals.

In order to mitigate their budget reductions, two schools will be adding a modest number of incremental masters students. Many departments have recently seen a large increase in the number of applicants to their graduate programs, and so a moderate expansion can be achieved without compromising the quality of the students admitted or the quality of the education delivered. Other revenue enhancements include the renegotiation of the contract with General Electric to operate the co-generation plant located on campus, increasing the amount we collect in ground rent.

Although the budget process focuses primarily on achieving a balanced general funds budget, we did address several important issues that affect the entire Consolidated Budget for Operations:

- Fringe Benefits – The benefits rate is budgeted to increase from 24.8% to 29%, an increase of more than $40 million to the Consolidated Budget. This increase is due principally to the rise in employee and retiree healthcare costs. Another significant factor is the cost of transferring most bargaining unit employees from the defined benefit retirement plan to the defined contribution plan. Benefits costs have been a major expense in recent years, increasing by an average of 15% per year from 2000/01 to 2003/04 and growing from $178 million to $269 million. In response to these continuing increases, we are now exploring ways to hold down future growth in the benefits rate, although the budgetary impact of any resulting changes to the benefits package will not be felt in 2003/04.

- Undergraduate Financial Aid – Stanford's financial aid program will continue to be among the strongest in the country. While we are not adding any enhancements to the aid program for next year, this budget does provide funds to meet the demonstrated financial need of all undergraduates. It is important to underscore that for those families whose financial circumstances do not keep pace with the cost of attending Stanford, we will meet their increased need through our financial aid program. General funds (including the Stanford Fund) supporting financial aid is expected to increase next year by 12.4%, from $23.4 to $26.3 million. Since 1999/00, support for undergraduate financial aid from general funds (including the Stanford Fund) has increased by 67.5%. We expect this trend to reverse as the endowment support from the Campaign for Undergraduate Education increases.

- Support for New Buildings – There are several new and renovated buildings coming on line in the remainder of this year and next year whose operating and debt service costs will affect the budget. These include three important new facilities: the Clark Center, the Lokey Lab, and SAL III, the off-site library storage facility in Livermore. Incremental costs of $19.5 million for debt service and operations of new and renovated buildings are included in the Consolidated Budget for Operations.

- Systems – For the past several years Stanford has been engaged in an extensive effort to replace its administrative systems and to upgrade the infrastructure supporting both academic and administrative computing. That effort will be nearly finished in 2003/04 with the completion of the Oracle financial systems. We are budgeting $12.7 million for system development projects and the infrastructure to support them in next year's budget.

- Targeted Allocations of General Funds – As noted above, about $554 million of Stanford's $2.4 billion in revenue consists of general funds under the direct control of the Provost. Within this portion of the budget we are reducing base budget funding allocations to academic and administrative units by approximately $23.4 million. However, we are also allocating $5.3 million to support incremental expense. The largest expense increases are $1.7 million for software maintenance agreements on the new administrative systems and $1.3 million to the Office of Research Administration to build into its base budget salaries that had previously been supported with one-time funds.

- MEDICAL SCHOOL FORMULA – In the Fall of 2002, the Provost and the Dean of the School of Medicine reached an agreement on a new budget formula for the School of Medicine. The formula was designed to allow the central university more accurately to recover the costs of the services provided to the school, while allowing the school to benefit from revenue streams that more accurately reflect its various activities. The new formula lets the school retain all of its income and applies differential charges on various revenue streams to reimburse the university for central services related to that revenue. For example, tuition revenue is charged a rate that captures the cost of student services, while indirect cost recovery is charged a rate that covers central research administration. Whereas the old budget formula imposed a tax only on sponsored research, the new formula applies appropriate charges to all of the revenue streams in the school. This formula is more equitable and better reflects the diversity of activities in the school. The net result of the new formula is a reduction of $7.2 million in the general funds allocation to the School of Medicine.

CONSOLIDATED BUDGET FOR OPERATIONS

The table on the following page shows the main revenue and expense line items for 2003/04 and compares those numbers to the reprojection of actual results for the current year. These figures include the incremental costs for the programs and initiatives noted above. Some highlights of both income and expense follow.

REVENUE

STUDENT INCOME – This figure is the sum of tuition and room and board income. Tuition is projected to grow 7.3% over the projected 2002/03 actuals, the result of a 5.0% increase in the undergraduate tuition rate, a 9.7% increase in the 8-10 unit rate for part-time graduate students, a 50% increase in the terminal graduate registration rate, and the addition of 75 incremental masters students. Room and board income is projected to increase by 9.5%, due to a 4.25% increase in the standard undergraduate room and board rate, the reopening of Branner Hall, and the impact of a full year of rent on the new Escondido Village graduate student apartments.

SPONSORED RESEARCH – The 4.2% growth in sponsored research results from: 1) an anticipated growth in direct research costs of 6.5%, 2) a reduction in direct costs at SLAC of 3%, and 3) an 8% increase in indirect cost recovery, due to volume growth plus an increase in the indirect cost rate from 58% to 60%.

EXPENDABLE GIFTS – The Office of Development anticipates that revenue from non-capital gifts available for current expenses will remain flat at $105 million for 2003/04. (This line does not include gifts to endowment or for capital projects.) In addition, net assets released from restrictions—primarily payments made on prior year gift pledges—are also expected to remain constant at $50 million.

INVESTMENT INCOME – This category consists of income paid out to operations from the endowment and from the expendable funds pool (EFP). Income from endowment is expected to decrease next year by 1.0%, including payout from new gifts to the endowment. (Excluding new gifts, endowment income would drop by 2%.) The spending rates approved by the Board of Trustees in February 2003 yield a smoothed payout rate of 5.24% compared to our target rate of 5.05%. Other investment income is expected to grow by 9% over the projected 2002/03 year-end actuals. This return is in accord with a new EFP policy proposed to the Board at this meeting. Under this policy approximately 87.5% of the EFP will be invested in the merged endowment pool and the

Projected Consolidated Budget for Operations, 2003/04

[in millions of dollars]

2001/02 Actuals	20002/03 Projected Year-End Acts		2003/04 Projected Current Funds
		Revenues and Other Additions	
411.5	435.6	Total Student Income	469.3
801.6	850.1	Total Sponsored Research Support	885.6
195.8	208.1	Health Care Services	225.8
104.3	105.0	Expendable Gifts in Support of Operations	105.0
446.2	450.8	Investment Income	453.2
233.7	233.7	Special Program Fees and Other Income	233.7
39.8	50.0	Net Assets Released from Restrictions	50.0
2,232.9	2,333.4	Total Revenues	2,422.6
		Expenses	
1,084.0	1,169.1	Salaries and Benefits	1,233.0
227.8	230.0	SLAC	223.0
110.6	114.9	Financial Aid	123.6
704.4	740.6	Other Operating Expenses	763.5
2,126.8	2,254.6	Total Expenses	2,343.0
106.1	78.8	Revenues less Expenses	79.6
(84.4)	(105.0)	Transfers	(98.6)
21.8	(26.2)	Surplus/(Deficit)	(19.0)

remainder in money market instruments. Unspent endowment income funds will be invested in a segregated, but merged, investment pool, 100% of which will be invested in money market instruments.

Expense

Salaries and Benefits – We anticipate total salaries and benefits expense to increase 5.5% over the projected year-end actuals. Although there will not be a merit raise program next year, there are several factors causing this increase. First, the rise in the benefits rate from 24.8% to 29.0% accounts for 3.1 points of the 5.5% increase. Second, there will be funds dedicated to bonuses, reclassifications, and market adjustments. These account for 1.5 points of the increase. Finally, the remaining 0.9 points reflects headcount increases anticipated in the auxiliaries and on sponsored research projects. Benefits costs are anticipated to increase by 21% from the 2002/03 budget (8.9% from the projected 2002/03 year-end actuals). The largest increase is in healthcare benefit costs, which are increasing 27% from the 2002/03 budget.

Other Operating Expenses – These line items are comprised principally of operations and maintenance (O&M) costs, utilities, capital equipment, materials and supplies, travel, library materials, subcontracts, and professional services. We are budgeting a growth of 3% for these items.

THE OUTLOOK FOR 2004/05

While it is speculative to look at Stanford's financial situation beyond next year, we have developed a general funds forecast for 2004/05 that projects a $15-20 million shortfall. This is an "unconstrained" forecast at this time, since it does not contain any specific corrective actions. The forecast does include a merit salary program increase. There are two major reasons for the shortfall. The first is a further increase in the staff benefits rate, due to the escalating cost of healthcare. The second is the assumption of continued slow growth in endowment returns. At this point it is too early to suggest what our plan of action might be to address this projected shortfall. However, we will be monitoring the situation closely and will update the Board of Trustees and the Stanford community in the fall as the outlook becomes clearer.

CAPITAL BUDGET AND PLAN

The Capital Budget for 2003/04 has been developed in the context of a three-year Capital Plan. The three-year plan includes projects that were initiated prior to, but will be completed during or after, 2003/04, as well as projects that will be started during the three-year period from 2003/04 to 2005/06. Since some projects in the plan will not be complete by the end of 2005/06, the "three-year" plan actually provides a rolling window of approximately five to six years of construction projects at the university. The Capital Budget represents those capital expenditures in the three-year Capital Plan that are expected to occur in 2003/04.

Capital Plan, 2003/04 – 2005/06

This year's Capital Plan has been significantly affected by affordability constraints, debt capacity limits, and challenging fundraising prospects. This was also true last year, but is even more strikingly evident now. The three-year Capital Plan forecasts $837 million in construction and infrastructure projects and programs that are currently underway or planned to begin over the next three years. For comparison, last year's three-year Capital Plan included $1.068 billion in projects, while the previous year's plan listed $1.329 billion in projects.

Although this year's $837 million plan is a far more realistic view of our near-term construction outlook, I do not expect that all of the projects included in the three-year plan will be completed, or will be completed in the envisioned timeframe. The projects included in the plan can all be accommodated within the constraints of the General Use Permit, and we are reasonably certain that the debt funding assumptions are realistic. But many of the projects assume substantial amounts of unidentified gift or reserve funding. These projects will only move forward when the stated funding goal is met with gifts or school reserves in hand.

The three-year Capital Plan includes 25 major projects and numerous infrastructure projects and programs. Most of these projects are multi-year efforts and all are scheduled to be completed by the end of 2008/09. The three-year plan will be funded from $122 million in current funds; $84 million in gifts and pledges; $36 million in auxiliary and service center debt; $123 million in academic debt; and $472 million in other resources yet to be identified, including gift funds not yet raised.

The three-year plan includes:

- $173 million for projects currently in Design & Construction,
- $567 million for Forecasted Projects, those anticipated to be presented to the Trustees for approval during the three-year period, and
- $97 million for Infrastructure Projects and Programs.

At plan completion, incremental annual internal debt service is expected to be $14 million, of which $5.7 million will be serviced by auxiliary or service center activities and $8.3 million will be paid for by unrestricted funds. Incremental O&M costs are expected to total $12.8 million per year, of which $9.5 million will be paid for by unrestricted funds.

Capital Budget, 2003/04

The Capital Budget for 2003/04 has also seen a substantial reduction over last year's Capital Budget. It represents anticipated expenditures for the year, including both committed and planned projects. The 2003/04 budget totals $151.6 million, compared to last year's total of $266 million. We categorize the projects in the 2003/04 Capital Budget in two ways:

- By Use: 43% for academic/research facilities; 24% for infrastructure; 16% for housing; and the remaining 17% to athletics, student activities, and academic support.
- By Type of Space: 52% for new projects (Law Student Housing, Lucas Center Expansion, and the School of Medicine Information and Learning Environment buildings); 24% for renovation projects (Maples Pavilion); and 24% for infrastructure programs.

The 2003/04 Consolidated Budget for Operations includes incremental internal debt service and operations and maintenance expenses for projects completing in 2003/04 and for projects completed in 2002/03 that were operational for less than twelve months. The projected impact of the additional internal debt service and O&M expenses is $13.7 million and $5.8 million, respectively.

REQUESTED APPROVAL AND ORGANIZATION OF THIS DOCUMENT

This Budget Plan provides a university-level perspective on Stanford's programmatic and financial plans for 2003/04. We seek approval of the planning directions, the principal assumptions, and the high-level supporting budgets contained herein. As the year unfolds, we will make periodic reports on the progress of actual expenses against the budget. In addition, we will bring forward individual capital projects for approval under normal Board of Trustees guidelines.

This document is divided into three sections and two appendices. Section 1 describes the financial elements of the plan, including details on the Consolidated Budget for Operations and the projected Statement of Activities for 2003/04. Section 2 addresses program issues in the academic areas of the university. Section 3 contains details on the Capital Plan for 2003/04 – 2005/06 and the Capital Budget for 2003/04. The Appendices include budgets for the major academic units and supplementary financial information.

CONCLUSION

In presenting last year's budget plan, I remarked that Stanford was entering a period of modest retrenchment. That retrenchment has both continued and become significantly less modest. Where many units achieved last year's budget reductions by trimming and saving, this year has required, for almost all units, a much more searching analysis of expenditures. Many administrative units reluctantly reduced or eliminated services; several academic units restructured their funding models to tap school and department funds to cover expenses previously funded with general funds; some sought ways to enhance revenues. Centrally, we struggled with decisions about the salary program, ultimately deciding that a salary freeze, with opportunities for one-time bonuses and isolated market corrections, was worth the savings. We continue to struggle with the benefits package, which may have to be changed to dampen future increases in the benefits rate. Though many challenges remain, I think the budget plan we have arrived at achieves the required reductions without harming the university or decreasing the quality of the education we provide and the research we perform.

I am continually impressed by the cooperative and positive attitude brought to the budget process by everyone involved. I want to thank everyone who participated in the difficult budgeting process in the schools and administrative units. Their care and thoughtfulness was apparent in the budget documents that were ultimately presented to and studied by the Budget Group. This is also a sign of the outstanding leadership we have in place in the schools and administrative units: I am grateful to all the deans, vice provosts, vice presidents, and directors who were responsible for their unit's budget process.

The budget and capital plan would not come together without the extraordinarily dedicated work of two advisory committees: the University Budget Group and the Capital Planning Group. The Budget Group this year consisted of Keith Baker, Mike Hindery, Charles Kruger, Randy Livingston, Channing Robertson, Dana Shelley, Bob Simoni, Buzz Thompson, and Tim Warner. This year's Capital Planning Group consisted of Chris Christofferson, Megan Davis, Margaret Dyer-Chamberlain, Stephanie Kalfayan, Randy Livingston, Sandy Louie, David Neuman, Tim Portwood, Bob Reidy, Gary Rotzin, Craig Tanaka, Jeff Wachtel, and Tim Warner. I am grateful to all of these individuals for their hard work and good humor along the way to the final plans presented here.

A huge amount of work is performed behind the scenes to support the efforts of these two advisory committees. In the Budget Office, Steve Olson and Dana Shelley do this work, under the able direction of Tim Warner. In the Capital Planning Office, Megan Davis and Margaret Dyer-Chamberlain lead the process, with guidance from Bob Reidy. I am extremely lucky to have the support of all of these dedicated and capable individuals. Tim Warner, in particular, is behind every page of this document.

Finally, this year a special thanks is due to the team that worked many hours on the design of the new School of Medicine general funds formula. This effort was led by Paul Goldstein in the Budget Office, who collaborated with Mike Hindery and Carole Buffum to arrive at a fair and practical model for allocating central expenses to the school's complex revenue streams. Again, this was a potentially divisive topic, but was approached with good will and cooperation on all sides.

Thank you all.

John W. Etchemendy
Provost
June 2003

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Section 1
Financial Overview

In this section we will review the details of the 2003/04 Consolidated Budget for Operations, discuss the impact of the Capital Budget on the Consolidated Budget, and present a projected Statement of Activities, which is presented in accordance with GAAP (Generally Accepted Accounting Principles).

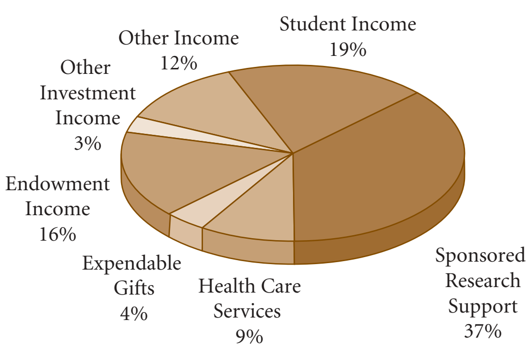
CONSOLIDATED BUDGET FOR OPERATIONS

The Consolidated Budget for Operations includes all non-capital revenues and expenses. It is based on forecasts from the schools and the administrative areas. These forecasts are then merged with the general funds budget forecast and adjusted by the University Budget Office for consistency. Unlike the Statement of Activities in the Annual Report, the Consolidated Budget for Operations is presented on a modified cash basis as opposed to an accrual basis, and it only shows those revenues and expenses available for current operations. It does not include plant funds, student loan funds, or endowment principal funds, although endowment income is reflected in this budget. The table on the next page shows the projected consolidated revenues and expenses for 2003/04. For comparison purposes, this table also shows the actual revenues and expenses for 2001/02 and both the budget and the year-end projections for the current fiscal year, 2002/03. In addition, definitions of key terms are provided on page 3.

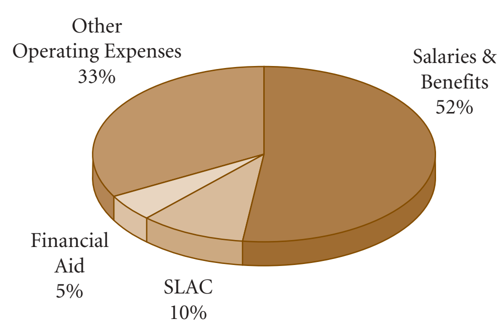
The 2003/04 Consolidated Budget for Operations shows total revenues of $2,422.6 million and expenses of $2,343.0 million, resulting in excess revenue over expense of $79.6 million. However, after estimated transfers, primarily to the plant division, the Consolidated Budget is projected to have a deficit of $19.0 million, or 0.8% of total expenses.

Total revenues in 2003/04 are projected to increase 3.8% over the expected 2002/03 levels. This growth is lower than the past several years due to continued sluggishness in investment returns, flat expectations for gift revenue, and flat revenue expectations in special program fees and other income that are affected by current economic conditions. Total expenses are expected to grow by 3.9% over the estimated year-end results for 2002/03. The constrained revenue forecast

2003/04 Consolidated Revenues: $2,422.6M [1]



2003/04 Consolidated Expenses: $2,343.0M



[1] Net Revenues after Transfers: $2,324.0M

Projected Consolidated Budget For Operations, 2003/04

[in millions of dollars]

2001/02 Actuals	2002/03 Budget June 2002	2002/03 Projected Yr-End Acts		General Funds	Designated	Designated Clinics	Restricted	Grants and Contracts	Auxiliary Activities	Total Current Funds
			Revenues and Other Additions							
			Student Income:							
175.5	181.8	184.6	Undergraduate Programs	191.9						191.9
157.8	174.6	166.7	Graduate Programs	185.0						185.0
78.3	90.0	84.4	Room and Board						92.4	92.4
411.5	446.4	435.6	Total Student Income	376.9					92.4	469.3
			Sponsored Research Support:							
439.8	472.7	475.0	Direct Costs—University					505.9		505.9
227.8	219.9	230.0	Direct Costs—SLAC					223.0		223.0
134.0	135.1	145.1	Indirect Costs	156.7						156.7
801.6	827.7	850.1	Total Sponsored Research Support	156.7				728.9		885.6
195.8	187.9	208.1	Health Care Services	5.3	13.5	171.2			35.9	225.8
104.3	140.0	105.0	Expendable Gifts In Support of Operations	2.0			103.0			105.0
			Investment Income:							
377.8	403.6	382.1	Endowment Income	80.8			297.7			378.5
68.4	86.1	68.6	Other Investment Income	28.6	44.1		2.1			74.8
446.2	489.7	450.8	Total Investment Income	109.3	44.1		299.8			453.2
233.7	254.2	233.7	Special Program Fees and Other Income	23.9	115.8		(1.9)	0.3	95.7	233.7
39.8	50.0	50.0	Net Assets Released from Restrictions				50.0			50.0
2,232.9	2,395.9	2,333.4	Total Revenues	674.0	173.3	171.2	450.9	729.2	224.0	2,422.6
			Expenses							
1,084.0	1,133.4	1,169.1	Salaries and Benefits	341.1	109.7	147.2	209.9	264.5	160.5	1,233.0
227.8	219.9	230.0	SLAC					223.0		223.0
110.6	108.8	114.9	Financial Aid	22.7	1.2		90.8	8.9		123.6
704.4	780.8	740.6	Other Operating Expenses	242.3	117.3	14.9	114.2	231.6	43.2	763.5
2,126.8	2,242.9	2,254.6	Total Expenses	606.1	228.1	162.2	414.9	728.0	203.7	2,343.0
106.1	153.0	78.8	Revenues less Expenses	67.9	(54.8)	9.0	36.1	1.2	20.2	79.6
			Transfers							
(2.0)	(40.0)	(2.0)	Additions to Funds Functioning as Endowment		(5.0)		(2.9)		1.9	(6.0)
(85.0)	(67.1)	(103.0)	Transfer to Plant/Student Loan	(25.0)	(30.0)		(16.6)	(0.3)	(20.8)	(92.6)
2.7			Other Transfers	(40.0)	51.0	3.0	(14.0)			
(84.3)	(107.1)	(105.0)	Total Transfers	(65.0)	16.0	3.0	(33.4)	(0.3)	(18.9)	(98.6)
21.8	45.9	(26.2)	Revenues less Expenses and Transfers	2.9	(38.8)	12.0	2.6	0.9	1.3	(19.0)
			Beginning Operating Equity		302.3	4.0	516.7	31.7	27.2	882.0
			Ending Operating Equity	2.9	263.5	16.0	519.3	32.7	28.5	863.0

necessitated budget decisions that result in substantially slower growth in expense than in recent years.

In order to understand the different dimensions of the Stanford budget, in the following sections we will review the Consolidated Budget from three perspectives:

- By principal revenue and expense categories,
- By type of funding source (e.g., general funds, restricted funds, etc.), and
- By organizational unit.

The Consolidated Budget by Principal Revenue and Expense Categories

Revenues

Student Income

Increases in student charges are guided by a number of considerations. The most important are our programmatic needs, the affordability of a Stanford education, the effectiveness of our financial aid program, our market position, and price inflation in the local and national economies. Overall, student income is expected to increase by 7.7% in 2003/04.

Tuition – The general tuition rate increase for 2003/04, which was approved by the Trustees in February, is 5% for the second year in a row and is part of the overall strategy to prevent a shortfall in general funds. The increase applies to the undergraduate tuition rate, the general graduate rate, and the full-time tuition rates for graduate students in the Schools of Engineering, Medicine, and Law. The Graduate School of Business (GSB) will increase the rate for the MBA program by 8.9% in order to address the school's projected budget shortfall. As the GSB tuition rate sufficiently lags its peers, this increase will not jeopardize the school's pricing position.

Over the past few years, there has been a drop in both graduate student enrollment and the proportion of graduate students who are paying full-time tuition. These two factors combine to create decreases in graduate student tuition revenue. The practice of graduate students enrolling less than full-time is expected to continue. In particular, the School of Engineering feels that 8-10 units is an appropriate workload for master's students who are adjusting to the difficult courses in graduate school. Thus, while enrollment in the School of Engineering has remained flat over the past ten years,

KEY TERMS

General Funds: Unrestricted funds that can be used for any University purpose. The largest sources are tuition, unrestricted endowment, and indirect cost recovery.

Designated Funds: Funds that come to the university as unrestricted but are directed to particular schools and departments, or for specific purposes by management agreement.

Designated Clinics Funds: Funds associated with the clinical activities in the School of Medicine.

Restricted Funds: Includes expendable and endowed funds that can only be spent in accordance with donor restrictions.

Grants and Contracts: The direct component of sponsored research, both federal and non-federal; individual principal investigators control these funds.

Auxiliaries: Self-contained entities such as Residential and Dining Enterprises and Intercollegiate Athletics that generate income and charge directly for their services. These entities usually pay the university for central services provided.

Net Assets Released from Restrictions: Under Financial Accounting Standards Board (FASB) reporting standards, gifts and pledges that contain specific donor restrictions preventing their spending in the current fiscal year are classified as "temporarily restricted," and are not included in the Consolidated Budget for Operations. In the future, when the restrictions are released, these funds become available for use. At this time, these funds are considered "released from restrictions" and are included as part of the Consolidated Budget in the line Net Assets Released from Restrictions.

Financial Aid: Includes expenses for undergraduate and graduate student aid. Student stipends and tuition allowance are not considered to be financial aid and are classified as other operating expenses in the Consolidated Budget.

Formula Areas: Budget units whose allocations of general funds are predetermined by a formula agreed to by the Provost and the unit. Principal formula units include the Graduate School of Business, the School of Medicine, and the Hoover Institution.

the number of students paying part-time tuition has doubled, yielding a decrease in tuition revenue. The Board approved increasing the percentage of full time tuition charged to part-time graduate students. Historically, graduate students taking 8-10 units paid 62% of full tuition. The 8-10 unit rate will now be set at 65% of full tuition, which more accurately reflects the proportion of units taken by these students.

Another change in graduate tuition pricing is the terminal graduate registration (TGR) rate, for which students are eligible after completing 135 units of coursework. A comparative study with Stanford's peers reveals that Stanford's TGR rate is the lowest in the peer group. A higher TGR rate encourages timely completion of graduate degree programs, in addition to the revenue generated. As a result, this rate will be increased by 50% to $6,600 for four quarters.

Tuition revenue from undergraduate programs is expected to grow by 4%, a little less than the approved increase in tuition because we do not believe that the undergraduate student body will be quite as large next year. Conversely, graduate program revenue is expected to increase 11%, which includes the higher rate increases for the GSB and for part time graduate students. It also assumes additional master's students in the Schools of Engineering and Education.

Room and Board – In February, the Trustees approved a combined room and board rate increase of 4.25% for 2003/04. The room rate will increase by 5.7%, and the board rate by 2.75%. The 2003/04 recommended increases in room and board rates were developed under several operating principles: continuing an asset preservation program that will annually fund building infrastructure renewal; operating with a reserve-to-expense ratio of at least 2%; completing seismic and life safety projects as part of the Capital Improvement Plan; and implementing an operations budget reduction of approximately 5%. Overall room and board revenue will grow by 9.5% as a result of the reopening of the renovated Branner Hall and Kitchen and full occupancy of the Escondido Village studio apartments that opened in January, 2003.

Sponsored Research Support and Indirect Cost Recovery

The budget for sponsored research support is expected to be $885.6 million in 2003/04, or 37% of the total revenues projected in the Consolidated Budget for Operations. Included in this figure are the direct costs of externally supported grants and contracts ($505.9 million for university research and $223 million for SLAC), as well as reimbursement for the indirect costs ($156.7 million) incurred by the university in support of sponsored activities.

Federally sponsored research continues to grow moderately in the current year, and is expected to grow another 5% in 2003/04. Non-government grants are up over 40% in the Medical School and up more than 25% university-wide in the current year. Strong growth in this area is expected to continue into next year. Overall, we are budgeting a 6.5% increase in university direct costs.

Total direct costs for SLAC in 2003/04 are expected to decrease compared to 2002/03. Funding from the Department of Energy (DOE), which still provides almost all of the funding for SLAC, is expected to increase minimally. Funding from other sponsors, who provide less than 5% of SLAC's direct costs, is expected to decline substantially in 2003/04 with the completion of the joint NIH/DOE project SPEAR3. This project upgrades SPEAR, the existing synchrotron radiation source for the Stanford Synchrotron Radiation Laboratory (SSRL). After the completion of the SPEAR3 project in October 2003, the direct costs from other sponsors are expected to drop from the current level of about $15.7 million to $4.4 million in 2003/04.

Last year, the university negotiated predetermined indirect cost rates of 58% in the current year and 60% for 2003/04. The combination of a rate increase and increases in research volume will yield an 8% increase in indirect cost recovery over the projected year-end actuals.

Health Care Services

Health Care Services income is budgeted to be $225.8 million in 2003/04. This is an 8.5% increase over the projection for 2002/03. It includes $171.2 million paid to the Medical School by the Stanford Hospital and Clinics and Lucile Packard Children's Hospital related to physician services of its faculty. It also includes payments of $7.4 million by the Veteran's Administration Hospital and the Santa Clara Valley Medical Center. Other components are: $4.7 million of clinical revenue; $22.1 million of payments to the Medical School for rent, use of the library, blood products, and research support; and $2.9 million of overhead payments. The hospitals also pay the university for a number of non-Medical School expenses, including communications services, legal services, operations and maintenance, and utilities, totaling $18.1 million.

Expendable Gifts

Expendable gift income is expected to total $105 million in 2003/04. These gifts are immediately expendable for purposes specified by the donor. This amount does not include gifts to endowment principal, gifts for capital projects, gifts pending designation, or non-government grants. Gift receipts in support of current operations reached a high of $125.3 million in 2000/01. They totaled $104.3 million in 2001/02 and are projected to remain flat at $105 million in both the current year and in the 2003/04 budget.

Investment Income

Endowment Income – Endowment income in 2003/04 is expected to be $378.5 million, a 1.0% decrease over 2002/03. The payout rate in the current year is higher than the total return on the pool and will result in the market value of the endowment being down for the third year in a row. The expectation for a moderate level of gifts to endowment mitigates what otherwise would be a larger decline in endowment payout.

The estimate of endowment payout from the merged endowment pool is a product of a forecast of the endowment market value at the beginning of the coming budget year and a smoothed payout rate. Stanford uses a smoothing rule to dampen the impact on the budget of large annual fluctuations in the market value, thereby providing stability to budget planning. The smoothing rule sets the coming year's payout rate to be a weighted average of the current year's payout rate and the target rate. The smoothed payout rate trends up when the market declines, and it moves lower when the market value increases. Nonetheless, while the smoothing rule protects the budget from unmanageable swings in the market value, it cannot prevent a decline in payout when the market value experiences a sustained downturn as we have seen the past few years. The target payout rate is 5.05%, and the smoothed payout rate projected for 2003/04 is 5.24%.

Total endowment income includes payout from funds invested in the merged endowment pools as well as specifically invested endowments and rental income from the Stanford Research Park and other endowed lands. Total income is also impacted by new gifts to endowment. In 1999/00, Stanford received a record $242 million in gifts to endowment principal, up from $96 million in 1998/99. Unfortunately, we have not been able to sustain the 1999/00 gift level. We received $158 million in new gifts to endowment in 2000/01 and $134 million in 2001/02. We expect to raise $175 million in the current year and again in 2003/04.

Of the total endowment income, only $80.8 million, or 21.4%, is unrestricted. The unrestricted endowment income includes payout from unrestricted merged endowment funds and all of the income generated from Stanford endowed lands. This amount is expected to decline 5.4% from the projected revenue of $85.4 million in 2002/03 for several reasons. First, the unrestricted merged endowment funds are subject to the same payout as restricted funds and will suffer from the recent declines in the market value. Second this decline is exacerbated by the withdrawal of over $50 million in unrestricted funds functioning as endowment necessary to buffer the shortfall in the expendable funds pool (EFP) returns in each of the last two years. Finally, rental income from Stanford's endowed lands is expected to be lower due to the continued slump in the local economy.

Other Investment Income – Other investment income consists primarily of the payout on the expendable funds pool, the investment pool for non-endowment funds. The expendable funds pool is comprised of the university's general operating funds, non-government grants, unspent endowment income funds, expendable gifts and designated funds belonging to various schools and departments, as well as student loan funds, plant funds, and other short-term funds. This pool of funds represents a significant component of university investment capital, with a current average funds balance of $1.3 billion.

Other investment income is budgeted to increase 9% to $74.8 million in 2003/04. This sizable increase is due to two factors. The first is the assumption that total return on the investments of the EFP will be 4.5%, compared to the zero return expected in the current year. Second, the guaranteed payout rate received by general funds will increase in 2003/04 from 4% to 4.5% in accordance with the revised EFP payout policy proposed for adoption by the Trustees at the June 2003 Board meeting. Under the revised policy, the EFP will be invested approximately 87.5% in the Merged Endowment Pool and 12.5% in money market instruments. Unspent endowment income funds will be invested in a segregated, but merged investment pool, 100 percent of which will be invested in money market instruments.

Special Program Fees and Other Income

This category includes the revenues of several different types of activities. The first is a variety of special programs such as patent and royalty income, conferences and symposiums, fees from the executive education programs in the Graduate School of Business and the Stanford Center for Professional Development, and revenues from corporate affiliates, mostly in the Schools of Earth Sciences and Engineering.

A major component of this category is the revenue from auxiliary activities, excluding student room and board fees. This category includes revenues from conference activity, concessions, and other operating income in Residential and Dining Enterprises (R&DE), athletic event ticket sales and television income, HighWire Press, the University Press, Stanford West Apartments, and several other smaller auxiliaries.

Overall, special program fees and other income are budgeted in 2003/04 to be unchanged from the projected year-end level of $233.7 million. Revenue from these activities has been affected by the overall economic conditions. In addition, patent royalties are expected to decline due to the expiration of several patents.

Net Assets Released from Restrictions

This represents the portion of funds previously classified as temporarily restricted that will become available for spending as specific restrictions are satisfied. These include pending gifts whose designation has been determined. In 2003/04, we anticipate that schools and departments will be able to use $50 million of gifts received in previous years that had been classified as temporarily restricted. Temporarily restricted funds are university gifts and pledges that contain specific donor-imposed restrictions preventing their spending in the fiscal year in which they are received. Until they are released from restrictions, they are not included in the Consolidated Budget for Operations.

Expenses

Salaries and Benefits

Salaries – One of the actions the university took in response to the overall constraints on the budget was to implement a freeze on merit increases for both faculty and staff salaries for fiscal year 2003/04. Forgoing increases to base continuing pay for the university's 8,700 faculty and staff members will reduce salary expense in the Consolidated Budget by $24 million, a reduction of $8 million in general funds. The decision to hold salaries flat for a year was made in the hopes of minimizing staff layoffs. The freeze in salaries does not apply to bargaining unit employees. Wages of Stanford workers who are covered by bargaining unit agreements are negotiated separately between the university and labor unions. A new contract with United Stanford Workers will be negotiated during the summer of 2003.

Stanford compares favorably to its competitors in terms of current salary levels and comprehensive benefits for both faculty and staff. Given the state of the local economy, it is doubtful that a one-year freeze on Stanford base pay will significantly impact the university's competitive market position.

While no increases to base pay are authorized, the salary program for 2003/04 does include central funding of 1.5% for one-time performance bonuses and incentives, as well as targeted funding for specific job classifications that lag the market by ten percent or more. Central funding for non-base performance bonus and incentive programs increases from 0.5% last year and highlights the growing importance of variable pay as a component of Stanford's salary program. In addition, units may use up to 1% of their salary base from local funds, if available, for additional performance bonuses and incentives. These program components provide flexibility to recognize top performers and to address documented market lags. While there will be no general merit program in 2003/04, individuals who are promoted will receive normal base salary increases commensurate with the change in their responsibilities and position.

Salaries for research and teaching assistants are budgeted to increase by 3%.

Fringe Benefits – All four of Stanford's fringe benefits rates will increase from 2002/03 to 2003/04 by significant increments. The increases are due in large part to the continuing growth in the cost of employee and retiree health care benefits. In addition, many other benefits programs, including all insurance plans, will be more costly.

Total costs in the benefits pool are budgeted to increase 21% from negotiated 2002/03 costs, a significantly faster growth than the modest increase expected in the salary and wage base. As a result, the total rate for benefits-eligible employees is budgeted to go up by

4.2 points, from 24.8% to 29.0%. Insurance plans will account for 2.0 points of that increase. The largest share will come from health insurance for active employees (1.0 point) and for retirees (0.3 points). Dental insurance (0.3 points), life insurance (0.2 points), long-term disability (0.2 points) and workers' compensation (0.1 point) will also contribute to the increase.

Retirement programs comprise 0.5 points of the year-to-year budget increase, due primarily to the additional costs related to the transfer of most bargaining unit employees from the defined-benefit Stanford Retirement Annuity Plan to the defined-contribution Stanford Contributory Retirement Plan.

Miscellaneous plans in total will be 0.4 points higher in 2003/04 than in 2002/03. The two main contributors are severance (0.3 points) and staff development (0.2 points), with small reductions in several other programs slightly offsetting those increases.

The largest point change in a single line item comes not from a current year program cost, but from the carry-forward from earlier years. In 2000/01, the negotiated fringe benefit rate was slightly higher than actual costs, so the over-recovery of about $4 million became a credit (reduction) to the rate in 2002/03. By contrast, total costs for regular benefits-eligible employees were under-recovered in 2001/02 by about $18 million, so the entire amount would normally become a part of the cost pool in 2003/04. However, including the entire amount would raise the regular fringe rate so high that the university plans to spread the cost out over three years. Even with that effort to ameliorate the effect of the carry-forward, the difference from 2002/03 to 2003/04 is 1.1 point on the rate.

The benefits rate for post-doctoral research affiliates will also increase in the coming year, from 14.8% to 18.7%. This is due in large part to rising medical costs as discussed above. The post-doctoral pool is also affected by a swing from a credit carry-forward that reduces the total rate in 2002/03 to a debit carry-forward that increases the rate in 2003/04. The rate for contingent (casual or temporary) employees will rise from 8.1% to 9.1%, due almost entirely to the carry-forward due to the under recovery in 2001/02.

The rate for graduate teaching and research assistants, which was new to the pool in 2002/03, will increase more modestly, from 3.3% to 3.5%. This rate will continue to fund half the cost of Cardinal Care insurance for RAs and TAs with appointments of 25% or more, with a smaller contribution for appointments between 10% and 25%. Other student salaries, such as pay for part-time clerical work during the school year, are not charged for benefits, nor are the students holding those jobs eligible for the university contribution toward their Cardinal Care.

The negotiated 2002/03 and the proposed 2003/04 fringe benefits rates are as follows:

Fringe Benefits Rates

	2002/03 Negotiated Budget	2003/04 Proposed Rates
Regular Benefits-Eligible Employees	24.8%	29.0%
Post-Doctoral Research Affiliates	14.8%	18.7%
Casual/Temporary Employees	8.1%	9.1%
Graduate RAs and TAs	3.3%	3.5%
Other Students	0.0%	0.0%
Average Blended Rate	22.6%	26.4%
Tuition Grant Program Recovery Rate	1.2%	1.2%

The Tuition Grant Program (TGP) rate of 1.2% is charged separately against regular benefits-eligible salaries only and will be unchanged in 2003/04. In order to comply with federal government rules, all federal government sponsored accounts are exempted from the TGP charge. Academic service centers also are exempted.

Financial Aid

Stanford expects to spend a total of $123.6 million in student financial aid for undergraduate and graduate students, $22.7 million of which will come from general funds. As the table on the following page indicates, designated and restricted funds ($92.0 million) and grants and contracts ($8.9 million) will support the remainder. The total financial aid numbers are 7.5% above the projected total for 2002/03. This increase is consistent with an expected increase in the number of undergraduates receiving need-based aid due to a change in the overall financial profile of our student body as well as the 9.7% increase in the 8-10 unit rate for part time graduate students.

2003/04 Financial Aid and Other Graduate Student Support from Stanford Resources

[in millions of dollars]

Projected 2003 Year-End		General Funds	Designated and Restricted	Grants & Contracts	Total
	Student Financial Aid				
51.5	Undergraduate	15.5	39.6		55.1
12.0	Undergraduate Athletic		13.0		13.0
51.5	Graduate	7.2	39.4	8.9	55.5
115.0	Total	22.7	92.0	8.9	123.6
	Other Graduate Student Support				
64.0	Stipends	7.3	32.9	25.7	65.9
41.3	Tuition Allowance	25.7	4.7	15.0	45.3
92.5	RA and TA Salaries	11.4	26.0	57.9	95.3
197.8	Total	44.3	63.6	98.6	206.6
312.8	Total Student Support	67.0	155.6	107.5	330.2

Undergraduate Aid – This Budget Plan reflects Stanford's long-held commitment to need-blind admissions supported by a financial aid program that meets the demonstrated financial need of all admitted undergraduate students. We estimate that in 2003/04, Stanford students will receive $68.6 million in need-based scholarships, of which $55.1 million will be from Stanford resources. The remaining $13.5 million will come from government and outside awards. The following sources support Stanford's $55.1 million commitment:

- General funds will cover $15.5 million, the highest level of general funds support since 1995/96. The proportion of Stanford funded scholarship aid supported by general funds decreased to as low as $4.6 million in 2000/01 due to the success of Stanford's fundraising, the tremendous growth in investment income over this time period, and the extraordinary strength in the economy overall. However, with a changing undergraduate student body and the slowing of the economy, there has been a steady increase in the need for general funds.
- Restricted income will provide $28.8 million, and
- The Stanford Fund will provide $10.8 million.

Stanford restricted funding, including endowment income and The Stanford Fund, will contribute a little less than 58% of the total need-based scholarship budget, down from a high of 71% in 2000/01. While the Campaign for Undergraduate Education (CUE) has been very successful and has brought in many new restricted funds, many of the new endowment funds have not realized sufficient appreciation to make the full payout. This fact, together with the declining endowment market value, will result in endowment income supporting undergraduate scholarship remaining flat in the coming year. Athletic scholarships, none of which are need-based, will be awarded to undergraduate students in the amount of $13.0 million.

The table on the following page shows the detail of undergraduate need-based scholarship aid. There had been a steady decline in the number of students on aid between 1997/98 and 2001/02, consistent with a very strong economy during much of this period. However, with a weaker economy and with a changing undergraduate student body, the number of students on aid increased substantially in 2001/02. There was another large increase in the number of students on aid during the current fiscal year, and we expect to see an additional 110 students on aid in 2003/04. The additional students on aid will push up the expected cost of our need-based scholarship program by 6.7%. Appendix B (Schedules 6 and 7) includes supplemental information on undergraduate financial aid.

Graduate Aid – Stanford provides several kinds of financial support to graduate students totaling $262.1

Financial Aid Awarded to Undergraduates Who Receive Need-Based Scholarship Aid

[in millions of dollars]

Source of Aid	1998/99 Actual	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Projected	2003/04 Budget
Restricted	19.0	20.2	25.9	26.5	28.1	28.8
Stanford Fund/Presidential funds	5.6	7.8	11.5	9.3	9.4	10.8
General Funds	12.4	7.9	4.6	10.3	14.0	15.5
Subtotal Stanford Funded Scholarship Aid	37.0	36.0	42.0	46.2	51.5	55.1
Govt. and Outside Awards	9.0	10.1	10.6	12.3	12.8	13.5
Total Undergraduate Scholarship Aid	46.0	46.0	52.6	58.5	64.3	68.6
General Funds as a Share of Total Aid	27%	17%	9%	18%	22%	23%
General Funds and Stanford Fund as a Share of Total Aid	39%	34%	31%	34%	36%	38%
Restricted funds as a Share of Total Aid	41%	44%	49%	45%	43.7%	41.9%
Number of Students	2,573	2,519	2,516	2,663	2,780	2,890

million in 2003/04. As the table on the previous page indicates, this includes the tuition component of fellowships in the amount of $55.5 million, which is reflected in the student financial aid line of the Consolidated Budget. It also includes funding, not shown in the student financial aid line of the budget, for stipends, tuition allowance, and research and teaching assistant (RA and TA) salaries of $206.6 million. Consistent with the presentation of Stanford's financial statements, tuition allowance (tuition benefits for RAs and TAs), and RA and TA salary expenses are in the Salaries and Benefits line, and the stipend amount is in the Other Operating Expense line of the Consolidated Budget for Operations on page 2.

The minimum rate for RA and TA salaries and stipends will increase by 3.0% in 2003/04; tuition allowance expense is expected to increase by 9.7%, the rate of increase for the 8-10 unit rate for graduate students.

Other Operating Expenses

This expense category includes all non-salary expenditures in the Consolidated Budget for Operations except financial aid, which is detailed separately above. The budget for these expenditures comprises one-third of the total expenses of the Consolidated Budget and is projected to increase by 3.1% to $763.5 million in 2003/04. The principal components include: materials and supplies ($138 million), administrative and professional services ($102 million), maintenance and utilities for campus buildings ($86 million), research subcontracts ($82 million), equipment purchases ($66 million), student stipends ($66 million), and travel ($32 million).

Maintenance and Utilities – Utilities costs continue to fluctuate. Although the unit cost of electricity is expected to remain flat in 2003/04, there is an increase in the budget for electricity that results from a 5% growth in consumption based on new buildings which will be activated next year. The unit cost of natural gas is undergoing significant fluctuation. The projected increase of 24% for 2003/04 offsets the 26% reduction in gas prices experienced in 2002/03, returning the prices close to 2001/02 levels. Again, overall consumption will be influenced by campus growth. Although a minor utility compared to electricity and natural gas, water prices are growing significantly. The San Francisco Public Utilities Commission staff is recommending a 25.7% increase in the wholesale price of domestic water, reflecting their continuing assessment of the need for increased maintenance on their aging delivery system.

Building maintenance budgets are increasing slightly as a result of the partial offset between increases for new buildings, and decreases resulting from significant budgets cuts. Facilities Operations budgets were cut

$2.5 million in 2002/03 and an additional $2.0 million for 2003/04. As a result, the absolute size of the budget is slightly higher, but resources per square foot are declining. Facilities Operations has identified service cuts in order to achieve the required budget reductions, but the appearance of the campus may suffer somewhat as a result of reduced services.

Debt Service – The 2003/04 internal debt service is projected to be $100 million, a $13.7 million increase over 2002/03. The university borrows funds from capital markets and uses the proceeds to fund capital projects and programs. These projects and programs are required to repay the funds plus interest over the life of the asset. These payments are known as internal debt service. Stanford is responsible for accumulating these funds for repayment to the external lenders. The rate charged to projects is calculated annually as a blended interest rate of all interest expense and bond issuance costs. The projected blended rate for 2003/04 is 5.65%.

The $100 million for total debt service is included in the Consolidated Budget for Operations in several fund types, depending on the specific uses of debt and consistent with the university annual financial statements format. Principal payments for academic projects are budgeted in the Transfer to Plant line and interest payments are budgeted in the Other Operating Expenses line.

Insurance Costs – Total expenses for property and general liability insurance programs are projected to be $13.8 million in 2003/04, up from $13.0 million in the current year. Both self-insurance and payment for external insurance premiums have increased in recent years, but external insurance premium costs are rising particularly rapidly, increasing from $2.7 million to $5.1 million over the two year period from 2001/02 to 2003/04.

The insurance industry's financial condition has been significantly weakened by the events of 9/11, the continuing weak economy, corporate scandals, and significant natural disasters. As a result, the insurance industry's capital has been depleted and their investment income is not sufficient to cover their extensive losses. All insurance customers, in both the academic and corporate sector, have seen a dramatic increase in rates for all purchased insurance, as well as forced reductions in coverage limits and increases in deductibles. Stanford took steps in 2001/02 to review and modify its third party and self-insurance program to mitigate the effect on the budget of the increases in payments for external insurance premiums. We have taken preventative measures to reduce claims, improved our management of existing claims and settlements, increased our self-insurance coverage, and raised our deductibles and lowered coverage limits. However, 2002/03 third party insurance premiums still increased by 40% for liability and 67% for property insurance, and an additional increase of 20% for liability and 30% for property is projected for 2003/04. The reserves for self-insurance claims in 2003/04 are projected to remain relatively flat to current year projections. The workers compensation insurance program was modified to include a self-insurance component, which reduced the upfront costs. However, the required reserves for claims and additional compensation benefits required by the state have increased, thus offsetting and exceeding the upfront cost savings.

Administrative Systems – This Budget Plan includes $12.7 million for administrative systems replacement and infrastructure using marketplace solutions. The budgeted amount includes expenses for the final phase of the Oracle financial systems, enhancements to the PeopleSoft human resources system, creation of an enterprise data warehouse, and a variety of small projects necessary to complete the migration off of the mainframe. While the funding for these projects comes from a variety of sources in the Consolidated Budget, including general funds, Presidential funds, and university debt, the expenses are not reflected in the Consolidated Budget for Operations, but rather in the infrastructure section of the Capital Budget.

Transfers

Several adjustments and transfers are made to reflect accurately the net income available for operations.

- Additions to Endowed Equity: This line represents the net of transfers of unspent revenues from designated and restricted funds to funds functioning as endowment (FFE) and withdrawals from these endowment reserves. We expect a total of $6.0 million will be transferred to FFE in 2003/04, which is up from the 2001/02 actual of $2.0 million.
- Transfer to Plant/Student Loan: The vast majority of these funds will move to the plant division to be used for capital projects and repayment of debt. The total transfer to plant projected for next year, $90.5

million, is down compared to an expected transfer of $100.9 million in 2002/03 due to the need to make an additional transfer in the current year that should have been made in 2001/02 We are budgeting $25.0 million in general funds for academic facilities renovation and debt principal repayments. The academic units are budgeting $35 million from designated and restricted funds for a variety of capital projects. Another significant amount will come out of the auxiliaries, primarily Residential and Dining Enterprises as they undertake another year in the Capital Improvement Plan. Additionally, $2.1 million is expected to move to the student loan division, an amount comparable to previous years.

- Other Transfers: These are transfers between fund types within the Consolidated Budget for Operations. They include the transfer of Stanford lands rental income to the housing reserve and to R&DE to support faculty and graduate housing subsidies, the transfer of general funds revenue to support programs in the Alumni Association and Athletics, and other similar transfers. Because these transfers are made between fund types within the current division, the net is zero.

The Consolidated Budget by Fund Type

General Funds Budget

The general funds budget is an important subset of the Consolidated Budget because these funds can be used for any university purpose. The main sources of general funds are student income, indirect cost recovery, unrestricted expendable gifts, unrestricted endowment income, and income from the expendable funds pool. Total general funds revenue is projected to be $674 million in 2003/04.

Several factors have adversely impacted the 2003/04 general funds budget. Declining endowment payout and expendable funds pool income, along with reduced rental income, have kept general funds revenue from growing sufficiently to meet the requirements of the university. In addition, the university has significant existing incremental commitments to the general funds budget and a need to continue to fund ongoing one-time programs and essential new activities. As a result, Stanford faced a $25 million general funds deficit at the start of the 2003/04 budget process.

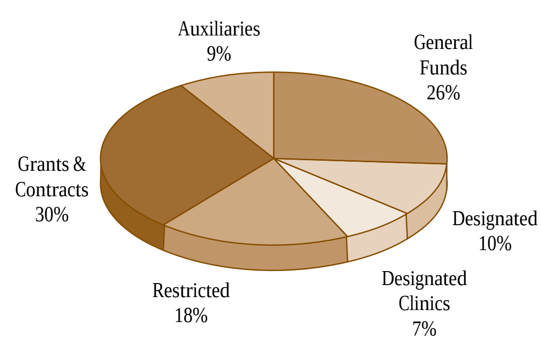
The university took several corrective actions to address the general funds shortfall, including increasing tuition above prior estimates, reassessing the Medical School's general funds formula, and freezing academic and staff salaries in 2003/04. While these actions improved the general funds bottom line by a total of about $19 million, the impact was offset by increased benefits costs and reductions in the projections of investment and rental income. The resulting projected deficit necessitated reductions to the general funds allocations to the units.

In response to a request by the Provost, the budget units proposed general funds cuts at 5%, 7.5% and 10% levels. On the heels of 5% budget reductions in 2002/03, units were doubly challenged to find budget solutions that would not adversely affect programs. In aggregate, the units presented hundreds of potential expense line item reductions, along with some revenue enhancements.

The Provost's Budget Group spent several months meeting with each budget unit, evaluating financial reports, fund balances, and proposed cuts. Unlike with last year's across the board reductions, the Budget Group made its decisions on a line-by-line basis. Throughout the process, a primary objective was to minimize the number of staff layoffs resulting from these cuts. The result of this comprehensive budget review was a $23.4 million decrease in general funds allocations and $2 million of central revenue enhancements.

A significant portion of the base budget cuts was necessary to fund $14.8 million of commitments made in prior years to cover critical incremental program initiatives, as well as to fund a handful of new base additions for 2003/04. The majority of prior base

2003/04 Consolidated Expenses by Fund Type



Summary of 2003/04 General Funds Reductions and Additions (Excluding Formula Units)

[in thousands of dollars]

	Reduction[1]	Central Revenue Enhancements[2]	Effective % GF Impact[3]	GF Commitments Prior[4]	GF Commitments New[5]	Total 2003/04 GF Allocation
School of Earth Sciences	228		7.5%	69	80	2,943
School of Education	476	216	7.1%		41	9,053
School of Engineering	1,367	1,377	7.1%		725	39,253
School of Humanities & Sciences	5,715		5.5%	874		98,651
School of Law	686		5.3%	123		12,461
Dean of Research	983		5.0%		286	20,336
Undergraduate Education	906		7.7%			10,804
Admissions & Financial Aid	250	180	5.5%	310	140	21,747
Stanford University Libraries	2,534		6.9%		275	34,234
Student Affairs	723	227	5.3%	72	140	17,322
Total Academic	13,868	2,000	6.1%	1,448	1,687	266,803
Office of the President & Provost	648		7.5%		250	8,232
Vice President for Public Affairs	387		7.6%			4,678
Business Affairs	1,749		4.6%	1,000	1,358	50,085
ITSS	2,418		6.3%		2,000	38,066
Development and Alumni Association	1,464		7.4%	1,360		19,795
Land & Buildings	1,944		5.6%			59,775
Other Administrative Units[6]	958		7.4%			11,921
Total Administrative	9,568		6.1%	2,360	3,608	192,552
Debt Service				6,406		29,412
O&M and Utilities on New Buildings				4,577		4,577
Central Obligations[7]						34,575
Total Other				10,983		68,564
Total All Units	23,436	2,000	6.1%	14,791	5,295	527,919

Notes:

1 General funds allocation reductions.

2 Central general funds revenue enhancements accepted in lieu of further general funds reductions.

3 Reductions and central revenue enhancements as a percentage of applicable general funds base (excludes fixed costs such as financial aid, insurance, fire contract and utilities).

4 Previous incremental base allocations reflect commitments made prior to or separate from the 2003/04 budget process.

5 General funds allocation additions reflect commitments made during from the 2003/04 budget process, and are funds allocated for implementation of new ongoing academic or administrative programs, commencing in 2003/04.

6 Other administrative units includes general funds allocations for General Counsel, Procurement, SLAC, Athletics, Stanford University Press, and the Stanford Faculty Club.

7 Central obligations include tuition allowance, graduate student health insurance contribution, the systems reserve, and the university reserve.

commitments are for incremental debt and utilities and maintenance expenses related to capital projects. Debt service on capital projects is the largest component at $6.4 million. The general funds obligation for utilities and operations and maintenance expenses on new buildings is projected to be $4.6 million in 2003/04.

Not surprisingly, few new base general funds requests were granted for 2003/04. ITSS received allocations of $1.75 million for critical vendor software maintenance and $250,000 for e-commerce support. Some chronic one-time funding obligations were moved to general funds in 2003/04 to better reflect ongoing university costs, including $1.3 million for Office of Research Administration salaries and $250,000 for faculty development. The School of Engineering received $449,000 of additional funding for their new Bioengineering program and the Dean of Research was granted $286,000 to cover compliance costs. University Libraries received $275,000 toward the cost of continued development of CourseWork and the opening of the off-site library storage facility.

Academic units absorbed general funds reductions through a combination of continued belt tightening, service reductions, delays in planned purchases or program enhancements, improved efficiencies due to reorganization, enhanced revenues, and use of accumulated reserves. While drawing down reserves is not a viable long-term solution, many units will rely more heavily on fund balances to support operations in 2003/04 as they transition toward a more sustainable model going forward. Administrative support units, most of which have little flexibility with respect to revenue or reserves, relied primarily on restructuring and reducing the breadth or depth of services they provide.

In addition to expense reductions, some units were able to identify increased revenue opportunities. These came in two forms: revenues internal to the unit, and revenues that increase the central general funds pool. In the case of the latter, we recognized the additional revenue in lieu of requiring further general funds reductions.

The unit reductions are summarized below according to the strategies employed.

Central Revenue Enhancements – Both the School of Education and the School of Engineering will launch initiatives to increase the number of master's students by 13 and 63, respectively, which will increase central general funds tuition revenue for the university. Both schools will begin ramping up admissions in 2003/04, reaching their target student count by 2004/05. Incremental master's students will generate $1.6 million in general funds, net of school and university incremental administration costs. Admissions and Financial Aid will increase the undergraduate student application fee by $10, which will result in additional general funds revenue of about $180,000. In addition, Student Affairs will roll out several fee increases, including raising graduate application fees.

Local Revenue Enhancements – The School of Humanities and Sciences expects to generate more than $1 million of income from new endowed chairs. In addition, several units will either increase existing fees or institute new fees for services.

Restructured Funding Models – Several schools have restructured funding models so that school and department funds can be used to cover expenses formerly covered by general funds. An important example is the School of Humanities and Sciences' plan to fund student aid first with restricted funds before applying general funds. This will help the school to better utilize department fund balances while maintaining flexibility for the dean.

Service Reductions – Reductions in general funds allocations will result in the loss of some services in a variety of areas across campus. On the academic side, the Vice Provost for Undergraduate Education plans to reduce the scope of several programs, including research seminars, sophomore seminars, and sophomore college courses. Several of the schools' dean's offices will reduce staff, which will result in varying levels of reduced responsiveness to students and faculty. The Dean of Research plans to reduce Environmental Health and Safety staff. Staff hours in the libraries will be reduced, and a five percent cut in the library materials budget will result in a slightly smaller collection. Student Affairs will reduce the use of physician specialists at the Vaden Health Center two days a week in order to meet its reduction target.

Administrative units also plan to reduce the scope of some of their services. ITSS staff cuts will eliminate department technology assessments and academic research and development functions, as well as reduce property administration, training classes, technical consultants, and development of user software. There will also be a reduction in support to existing production systems. Office of Development staff cuts will result in some loss of university outreach. Land and Buildings will reduce the frequency of scheduled cleaning and maintenance and will perform fewer new studies. Business Affairs staff reductions will decrease the general responsiveness of central support units.

Organizational Restructuring – The School of Education will streamline the International Cooperative Education program and restructure the Administration & Policy Analysis master's program, both of which are not expected to impact programmatic integrity. The School of Engineering will eliminate the Scientific Computing and Computational Mathematics program.

Designated Funds Budget

Designated funds revenue is projected to be $344.5 million in 2003/04. Designated funds come into the university without any legal restriction as unrestricted revenues, but have been directed to particular units for specific purposes by management agreement. The schools, departments and programs, and individual faculty members control the majority of the funds in these budgets.

A major component of designated funds revenue comes from special program fees, including patents and royalties, corporate affiliate payments, and executive education programs. The other major component is $171.2 million for payments from the hospitals to the departments in the Medical School through the clinical practice. Another source of designated funds income is expendable funds pool payout on designated fund balances. Due to the current economic environment, the university anticipates only modest growth in the amount of income coming into designated funds.

Total expenses charged to designated funds are budgeted to be $390.3 million. Additionally, it is anticipated that $19 million of funds, primarily general funds, will be transferred into the designated funds budget. It is important to note that this is a net figure, with $35.0 million of designated funds (primarily existing fund balances) transferred to funds functioning as endowment and to cover plant projects. It is anticipated that $54.0 million of funds, primarily general funds and endowment income, will be transferred to designated funds. The $26.8 million designated funds deficit primarily represents a planned use of the university's substantial designated fund balances for capital projects and to offset the immediate impact of revenue reductions.

In the 2003/04 Consolidated Budget, two significant changes impact the designated funds budget:

Designated Funds, Clinical – To recognize more appropriately the sources of funding and align with other similar activities in the institution, the clinical activities of the School of Medicine will be recorded in designated funds. Prior to 2003/04, they have been budgeted and reported as an auxiliary activity. Designated-clinical funds include three components:

- The clinical practice at Stanford Hospital and Clinics and at Lucile Packard Children's Hospital, ($124.7 million),
- Service payments and academic clinical funding from SHC and LPCH ($46.5 million), and
- A transfer from the dean's office of $3.0 million to help fund a portion of the academic clinical fund that the hospitals are not funding in the next year.

Nearly 69% of the expenses are for faculty or physician salaries and benefits; another 22% are for staff expense. Non-salary expense in support of the physician's clinical activities totals almost $15 million, including the dean's tax of approximately $10.2 million.

An aggregate surplus of $12 million is projected in 2003/04 and reflects the combination of the surplus generated by a number of the clinical departments less the deficits generated by others. Thus, while some departments will see a net transfer to their executive funds at the end of the year, some departments will need to cover the deficits using their own reserves.

Significant progress has been made this year in working with the two hospitals to identify and begin to develop areas of strategic importance for all components of the Medical Center. A new funds flow approach, including the academic clinical fund, has been designed that attempts to more closely align the mission of the school with that of SHC and to support the school in a manner that is consistent, fair, and transparent. The school and LPCH expect to go through a similar process during this next year. This joint focus and development should help to strengthen the financial situation of all three entities as well as the clinical and teaching programs of the clinical departments.

Alumni Association – As with the clinical activities, in 2003/04 the activities of the Alumni Association will be represented in the designated funds budget. This will allow for consistent treatment of its activities with similar alumni relations activities in other parts of the university. Approximately $32 million of activity which previously has shown up as auxiliary activity, since the incorporation of the Stanford Alumni Association into the university in 1998/99, is reflected in the designated funds budget. Only the merchandising activities of the Alumni Association, approximately $1 million in revenue, remain as auxiliary activities.

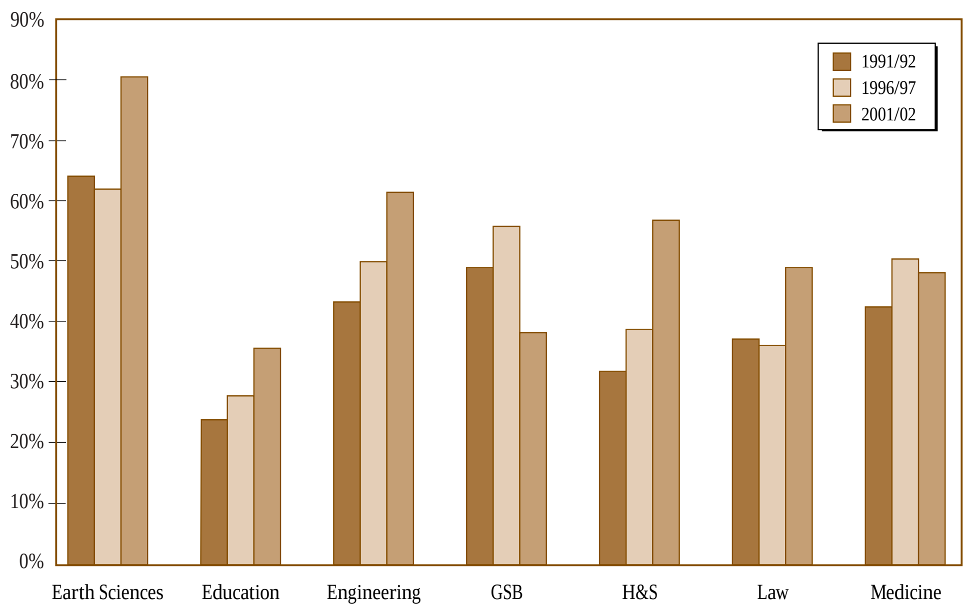
Restricted Funds Budget

Restricted funds represent income, transfers, and expense for both restricted expendable funds and restricted endowment income funds. Together, revenue for these funds is projected to be $450.9 million in 2003/04. Of this amount, $90.8 million will be used to cover financial aid, which in the financial statements shows as a deduction from student income. Of the $450.9 million total, $297.7 million is from endowment income, and $153.2 million is from expendable gifts, payments on prior pledges, and other sources of income, primarily expendable funds pool payout on existing fund balances. A total of $33.4 million of endowment income and expendable gift funds is expected to be transferred to other funds, including plant and designated funds. Total expenses are budgeted at $414.9 million, resulting in a net of $2.6 million.

The schools, which control nearly two-thirds of the university's total expendable (designated and restricted) fund balances, have historically generated more restricted revenue than can be spent in each year, resulting in significant growth in fund balances. Some of the annual revenue is not used because the terms of the funds are so restrictive as to preclude their use. Efforts continue to review and possibly ease the restrictiveness of some funds as well as to split some large endowed chair funds, which generate much more income than can be used to cover a single faculty member's salary and benefits, to allow them to support more than one faculty member.

It is regular practice to reserve designated and restricted revenue to pay for planned capital projects or other large purchases, to cover potential shortfalls in sponsored research funding, to supplement existing research funding, and to provide student support that cannot be met from other funding sources. Because of the significant revenue reductions in 2003/04, it is expected that units will tap into these accumulated fund balances to cover anticipated deficits. Given the continuing pressure on general funds, it is critical for the institution to find ways of utilizing accumulated restricted fund balances more effectively and to substitute the use of general funds with restricted funds. Schedule 17 in Appendix B shows the academic area fund balances by unit. The chart below shows expendable fund balances as a percentage of each school's net revenues over the past decade.

Expendable Fund Balances as a Percent of Net Revenues[1]



[1] This graph represents year-end balances in designated, expendable gift, and unspent endowment income funds.

Grants and Contracts Budget

The grants and contracts budget for 2003/04 of $728.9 million represents $505.9 million of direct sponsored activity under the oversight of individual faculty principal investigators and $223.0 million in direct costs for SLAC. The total includes $8.9 million of student aid. The university direct cost totals are formulated based upon the projected year-end results for 2002/03 and through consultations with individual research areas. Total university research volume is expected to grow by 6.5% in 2003/04. This growth rate, more moderate than in the past, reflects a projected slowdown in government research support, particularly by the National Institutes of Health. As well, the 2003/04 budget incorporates a decrease of over $7 million of direct expenditures related to Gravity Probe B, projected to launch in 2003/04 (most of these costs were subcontracted outside the university) and a decrease in NIH support for the SPEAR3 facility in SLAC.

Auxiliary Activities

Auxiliary operations are self-contained financial entities supporting the broader purposes of the university, generating significant amounts of revenue from non-university funding sources. As such, these organizations charge both internal and external clients/customers for their services and programs. They also pay the university for central services provided. Together the auxiliaries are projecting a surplus of $1.3 million in 2003/04, including net transfers of $18.9 million to other funds, primarily to reflect the retirement of debt principal by the auxiliaries and service centers. Additionally, we are projecting that the administrative service centers of the university (principally Communications Services and Utilities) will receive $20.0 million in reimbursement from the hospitals, recognized in the Consolidated Budget as an external revenue stream on the Health Care Services line.

The principal auxiliary activities of the university are the Athletics department, the Blood Center, HighWire Press, Residential and Dining Enterprises, the Stanford West/Welch Road Apartments, and the Stanford University Press. Two other entities, the Stanford Alumni Association and the Medical School clinical practice, previously were treated as auxiliary enterprises. As mentioned above, starting in 2003/04, however, these entities are incorporated into the other components of the Consolidated Budget to better reflect their alignment with similar academic and administrative activities occurring throughout the university. In addition, there are several other small auxiliary enterprises, such as the Residential Subdivisions, the Bing Nursery School, the Stanford-In-Washington and Overseas Studies campus residences, and the Schwab Residential Center. Detailed budgets may be found in Appendix A.

Athletics – Athletics is projecting a balanced consolidated budget in 2003/04. Operating income will grow by less than 2% from 2002/03, inclusive of a 7.5% reduction in university support. Due to a more favorable home schedule, there will be an increase in football gate receipts of about $200,000. Athletics also expects small increases in Golf Course, Summer Camp, and restricted funds income. After experiencing a sizeable increase last season due to the new CBS NCAA Basketball contract, income from the NCAA and Pacific 10 Conference will essentially remain flat in 2003/04.

With the exception of contractual commitments, Athletics will hold salaries flat in 2003/04, consistent with the university's salary plan, although total compensation will rise gradually due to the increase in the fringe benefits rate. The department will make budget reductions in several operational and marketing areas, although no reductions will be made to sport programs, physical education & recreation programs, or programs affecting the well-being of student-athletes.

The total number of full scholarships, for which commitments are made well in advance, increases from 299 in 2002/03 to 305 in 2003/04. Even with the success of Athletics' Campaign for Undergraduate Education fundraising, the slowed rate of endowment payout, combined with increased scholarships and tuition, room, and board costs, may cause 2003/04 financial aid expenses to exceed financial aid income. In that case, Athletics will draw upon its financial aid reserves to cover any resulting gap.

Blood Center – The Blood Center is projecting a balanced budget for 2003/04. The Blood Center continues to function as an auxiliary since it provides blood products and services to other medical and research facilities in the community as well as to the Stanford Hospital and Clinics and Lucile Packard Children's Hospital. The revenue budget for the Blood Center for 2003/04 is expected to total approximately $19.1 million and is anticipated to cover expense. Approximately 64% of the expense is related to salaries and benefits while the remainder is related to

Total Auxiliary Activities, 2003/04

[in millions of dollars]

	Revenues and Transfers	Expenses	Surplus/ (Deficit)
Athletics[1]	38.2	38.2	
Blood Center	19.1	19.1	
Highwire Press & Media Solutions	17.5	17.5	
Residential & Dining Enterprises	100.3	100.3	
Stanford West/Welch Road	14.9	12.7	2.2
University Press	5.7	6.9	(1.2)
Net Service Center Activity[2]	20.0	20.0	
Other	14.3	13.9	0.3
Total[3]	230.0	228.7	1.3

Notes:

1 Financial Aid activity is not included.

2 University Communications and Utilities services to the hospitals and other outside entities.

3 This table represents gross revenues and expenditures. When incorporated into the Consolidated Budget on page 2, interdepartmental transactions of $25 million have been netted out.

the other direct costs, including supplies, utilities, and operations of running the Center.

HighWire Press – HighWire Press is projecting a balanced budget after a transfer of $350,000 to support the operations of the Stanford University Libraries and Academic Information Resources area. HighWire will continue its industry-leading Internet publishing service for high quality, frequently cited, and prominent scholarly journals. By careful control of costs, use of more efficient software (most of it being developed in-house), and related efficiencies, HighWire will reduce its prices to client publishers. Several important new publishers and their titles are scheduled to become clients in 2003/04. With these process developments, HighWire will protect its client base against quasi-competitors offering loss-leader pricing, but this year it will not be able to provide a contribution to its capital or operating reserves.

Residential and Dining Enterprises – Residential and Dining Enterprises (R&DE) is projecting for 2003/04 total revenues of $110.4 million. R&DE will use $181,000 from their reserves in order to finance the debt associated with the Capital Improvement Program (CIP) for renovations of housing and dining facilities. 2003/04 is the 12th year of the $420 million, 19 year CIP plan. Major projects during 2003/04 include seismic retrofitting in Escondido Village and Florence Moore Hall.

Several enterprise-wide revenue enhancements have been identified to strengthen the bottom line. These enhancements include summer storage services for students and miscellaneous housing and dining initiatives. Additionally, R&DE will realize other increased revenues from the re-opening of the newly renovated Branner Hall residences and kitchen and the first full year of operations for both the SLAC Guest House and the Clark Center Restaurant and Café, which will be the largest retail operation on campus and is the latest in a series of new Stanford Dining enterprises, preceded by The Café at Arrillaga Alumni Center and Olives @ Building 160.

In addition to absorbing the higher than anticipated university costs associated with fringe benefits, debt service, and property and liability insurance, R&DE will replace the current housing assignment system that resides on the mainframe, and continue to build an asset preservation program which will annually fund building infrastructure renewal. These programs will be funded through modest room and board rate increases, operating budget expense reductions, as well as from the revenue enhancements noted above.

Stanford West/Welch Road Apartments – Due to softening in the local rental market, the Faculty/Staff Housing Office is planning a 5% reduction in rental rates for the Stanford West Apartments in an attempt to maintain occupancy at the current 95% level. Even so, Stanford West projects a surplus for 2003/04 of $2 million. There are no plans to adjust the rents at the Welch Road Apartments because they are currently below market and occupancy continues to run at about 98%. Welch Road projects a surplus of $150,000 for 2003/04. The surpluses for both of these auxiliaries will be added to capital reserves. With the addition of the 2003/04 surplus for Stanford West Apartments, there are plans for a major capital improvement program, installing air conditioning in the rental units. The university currently is using the capital reserves for the Welch Road Apartments to cover depreciation expenses of its various rental properties.

University Press – In 2003/04 the Stanford University Press will complete the third full year of its long range plan to publish works of outstanding scholarship while, at the same time, reducing its financial reliance on the university. In doing so, the Press is projecting a deficit of $1.2 million for 2003/04.

So far, the Press has managed to implement its long range plan within the confines of the investment program established by the university, but this has not been achieved without difficulty. Market conditions since the fall of 2001 have been very harsh for all publishers of serious works, and for scholarly presses in particular. The 2003/04 budget assumes that these conditions will continue, keeping wholesale, retail, and library sales fairly flat; hence, revenue expectations are conservative (4% growth), despite the planned publication of about 80 titles in the established humanities and Asian studies programs, and about 50 titles in the newer social science, law, and business programs. In order to maximize the return on this revenue, the Press will continue its program of cost management – a program that has significantly reduced both cost of goods sold and operating costs.

The Press enters the year with an outstanding program, a committed staff, new distribution and sales partners around the world, and with contracts for some 400 titles to be released over the next four to five years. Consequently, it is well positioned to weather the current storms in the marketplace and emerge stronger, when economic conditions improve, with a publishing program that reflects many of the academic strengths of Stanford University.

The Consolidated Budget by Organizational Unit

The table on page 19 shows the Consolidated Budget for Operations displayed by organizational unit. Detailed consolidated budgets by unit are found in Appendix A. A brief discussion of selected unit follows.

Graduate School of Business

The Graduate School of Business (GSB) projects a deficit of $1.3 million for 2003/04, reflecting a decrease in designated fund balances. For 2003/04, the GSB plans several revenue enhancements while keeping operating expenses relatively flat compared to the current year.

A concerted fundraising effort has begun to support faculty (especially junior faculty), to support the school's research centers, and to provide fellowship support for MBA and PhD Programs. At the same time, the GSB has increased tuition, increased rents at the Schwab Residential Center, and raised prices on most executive education programs.

Plans are underway to keep the operating budget flat, which includes absorbing large increases in benefits rates and investments in two new research initiatives. This will be achieved through adopting the 2003/04 salary program for faculty and staff, reductions to information technology infrastructure and web service projects, and targeted reductions to most department budgets. The school expects the budget for student services will be the least affected by these budget reductions. If successful, these actions will eliminate the school's operating deficit completely by 2004/05 while maintaining its position at the top of its peer institutions.

School of Earth Sciences

The School of Earth Sciences projects a deficit of $177,000 on revenues and transfers of $28.4 million. The deficit will be the result of increased reliance on school endowment and gift funds, coupled with a projected 2% reduction in endowment income. This will result in the use of school reserves to support 2003/04 expenses. The school is also projecting a smaller than average surplus in designated funds due to a weak economy and the decline in corporate affiliate programs. The school's consolidated budget is heavily dependent on non-general funds; for 2003/04 only 11% of total expenses are supported by general funds, although this is up from 9% for 2002/03. Endowment income (38.5%) and grants and contracts (30%) make up the bulk of the support for the school.

The school's budget reduction plan includes cuts in teaching support, departmental support, reduced funding for research faculty, and deferral of financial commitments such as increases in faculty salaries. Cautious investments will be made in the areas of scientific equipment, as well as faculty recruitment and start-up packages. With a significant number of faculty retirements on the horizon, the school anticipates a draw on both expendable and endowment reserves over the next few years to support new faculty start-up costs. School reserves intended to support these expenses have been built up for just such a purpose.

Projected Consolidated Budget for Operations by Unit, 2003/04

[in millions of dollars]

	Total Revenues and Transfers	Total Expenses	Surplus/ (Deficit)
Academic Units:			
Graduate School of Business[1,2]	91.1	92.3	(1.3)
School of Earth Sciences	28.4	28.6	(0.2)
School of Education	29.2	28.4	0.8
School of Engineering	200.6	195.2	5.4
Hoover Institution	31.9	31.9	
School of Humanities & Sciences[1]	236.2	243.8	(7.6)
School of Law	34.0	34.0	
School of Medicine[1,2]	724.5	756.5	(32.0)
Dean of Research	129.5	132.3	(2.8)
Undergraduate Education	18.7	20.8	(2.1)
Total Academic Units	1,524.1	1,563.8	(39.7)
Academic Support Units:			
Admissions (excluding financial aid)	6.0	6.0	
Stanford University Libraries	46.6	48.1	(1.5)
Student Affairs	27.5	28.0	(0.5)
Total Academic Support Units	80.1	82.1	(2.0)
Total Administrative	428.4	427.1	1.2
Auxiliary Activities	205.1	203.7	1.3
SLAC	223.0	223.0	
Indirect Cost Adjustment[3]	(156.7)	(156.7)	
Grand Total from Units	2,303.9	2,343.0	(39.1)
Other Anticipated Income[4]	20.1		20.1
Total Consolidated Budget	2,324.0	2,343.0	(19.0)

Notes:

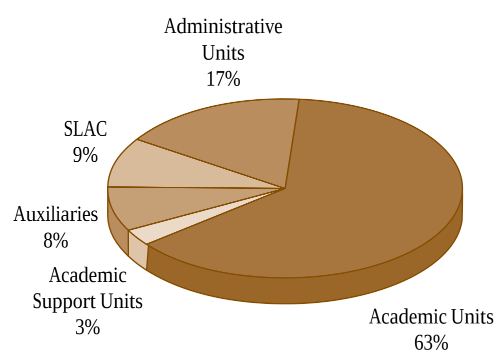
1 The budget lines for the School of Medicine, Graduate School of Business, and H&S do not include auxiliary revenues and expenses. These items are shown in the Auxiliary Activities line. These auxiliary operations include the Medical School Blood Center, the Schwab Center of the GSB, and Overseas Studies, Stanford In Washington, and Bing Nursery School in H&S. These auxiliary activities are shown in more detail in the schools' Consolidated Forecasts in Appendix A.

2 This budget reflects a direct allocation of tuition revenue in those units operating under a formula funding arrangement.

3 The academic unit budgets include both direct and indirect sponsored income and expenditures. Indirect cost funding passes through the schools and is transferred to the university as expenditures occur. At that point, indirect cost recovery becomes part of unrestricted income for the university. In order not to double count, indirect cost recovery of $156.7 million received by the schools is taken out in the "Indirect Cost Adjustment" line.

4 The $20.1 million shown in Other Anticipated Income is based on historical experience and reflects the expectation that the university will receive additional unrestricted and/or restricted income that cannot be specifically identified by unit at this time.

2003/04 Consolidated Expenses by Unit



School of Education

The School of Education projects a surplus of $786,000 on revenues and transfers of $29.2 million. The surplus results primarily from new expendable gift funds related to the John Gardner Center that will be spent over the coming years. Other surplus funds represent unused restricted endowment income funds. The school will increase revenues by increasing the number of master's students and by raising new restricted funds.

To meet budget reductions the school will restructure and streamline master's programs, modify the faculty administrative support model, restrict visiting faculty appointments, limit facilities projects, and reduce non-salary expenses.

School of Engineering

The School of Engineering projects a surplus of $5.4 million in 2003/04 on expected revenues of $201 million. Total revenue and expenses in non-sponsored areas will be approximately the same as in 2002/03. Grants and contracts are expected to grow by approximately $7 million from the 2002/03 projected total of $88 million, around 8%. Much of this growth reflects the addition this year of the Global Climate and Energy Project (G-CEP), an Independent Laboratory managed administratively by the School of Engineering.

The School of Engineering has approached its budget reductions with the goal of protecting the ability of its departments to effectively deliver their academic programs. As a result, most of the school's planned reductions are within the dean's office. Some positions have been trimmed or eliminated, general expenses have been reduced, and new charges will be made for currently free services. In addition, revenue-generating units have been challenged to increase the net support they provide to departments.

These plans, however, were not sufficient to meet the school's budget targets. As a result, Engineering proposed to increase its base master's enrollment by 63 students from the 2002/03 level. The model proposed by the School of Engineering provides support for the university's central services as well as support for the academic program delivered by engineering departments for these incremental students. The additional tuition revenue, net of central and local program support, will be used to meet the school's budget target.

Hoover Institution

Continued success in annual fundraising and sound management of expenditures has allowed the Hoover Institution to generate a series of annual budget surpluses over the past eight years and to build a reserve fund. The budget outlook for 2003/04 and the future calls for balanced budgets.

The Hoover Institution has participated in the university's program of cutbacks in general funds and has trimmed its budget accordingly. Although the Hoover Institution is on solid financial footing, it is cognizant of the uncertain economic situation the university and Hoover is facing. Consequently, Hoover has developed a contingency plan to reduce its annual base budget expenditures by $2 million over a two-year period—this represents a budget reduction of more than 6%. The cuts will be accomplished by a smooth reduction in staff through attrition and some curtailment of programs in all areas: research, library and archives, and communications and outreach.

School of Humanities & Sciences

The School of Humanities and Sciences (H&S) is projecting a $7.6 million deficit for 2003/04, reflecting operational funding problems and investments of accumulated fund balances in one-time facilities expenditures. The deficit, funded by H&S reserves, includes:

- Approximately $2 million of investments in critical information technology and basic infrastructure,
- Activation costs associated with the Clark Center and Lokey Laboratory totaling $1 million, and
- Renovations for faculty labs and department facilities using $2.5 million.

New models for funding operating budgets are currently being implemented, resulting in a more effective use of department-controlled funds and eliminating large accumulated balances during the next three years. Consequently, additional reserves will be available to the dean's office for this period to fund annual operating deficits, infrastructure and facilities needs. Longer-term, the school will have to move to a financial plan in equilibrium, eliminating annual deficits and strictly matching on-going expenditures with on-going funding sources.

Fiscal year 2003/04 will be the second year of new initiatives which implement financial management improvements in H&S and respond to university funding reductions. Planning for 2002/03 incorporated $4.2 million of base and one-time funding reductions, offset by some incremental base funding in targeted areas. For 2003/04, planning incorporates $5.7 million of additional base funding reductions. Efforts in both of these years have focused on maximizing the use of existing funding sources in order to preserve academic programming and the faculty recruitment plan, while making critical investments in infrastructure and facilities. Funding for certain discretionary expenditures will be reduced across the school while additional targeted cuts will be made in selected programs.

In addition to reduction and reallocation strategies, revenue enhancements have also been incorporated into financial projections. New endowed chairs matched by Hewlett gift funds are projected to add $1 million of revenue in 2003/04 with larger amounts in future years as pledges are paid. Significant amounts of additional gifts are projected to come into H&S from the Hewlett gift and matches, and from the CUE Campaign, but the timing will be over a longer period than previously reported.

School of Law

The Law School is projecting a small deficit of $30,000 for 2003/04. One-time surplus funds generated by cost savings and empty faculty billets will be used to continue renovations to the Crown Quad building and Law Library and replenish funds borrowed from funds functioning as endowment. Law will also continue drawing down expendable gifts that have been raised during past years to fund start-up programs and clinics.

To meet the budget reduction goal of $686,000 the Law School will eliminate its COO position, reduce the number of books and subscriptions purchased, reduce library staff, eliminate five positions in its external relations office, reduce the information technology staff, and decrease event spending. These reductions will be met mostly through attrition. The impact of these cuts will be felt throughout the Law School; services to students and faculty will be cut back. Using funds originally earmarked for program expenses such as conferences and research projects to cover visiting faculty and research leaves, now covered with unrestricted funds, will reduce the research efforts of Law School faculty.

School of Medicine

In 2003/04 the School of Medicine is projecting a $32 million deficit for the following reasons:

- Expenses are projected to increase 9.5% over the budget plan for 2003/03, while revenues are increasing only 4.9%.
- The net result of the new formula is a payment from the school to the Provost's Office of approximately $42.1 million in 2003/04, an increase of approximately $7.0 million from the methodology of the former formula.
- The school plans to transfer $5 million of designated funds to funds-functioning-as-endowment and an additional $15 million of designated funds to cover plant-related expenses.

This results in a planned use of expendable reserves held by the dean's office and by individual departments within the school of $11.2 million in 2003/04 to cover expenses and an additional $20.8 million to be transferred to endowment and to plant. As mentioned above, over the past year the school and the Provost's Office have revised the formula by which the school pays for the services provided by the central university. This is a significant factor in the unfavorable discrepancy between revenue and expenses.

The dean's office and departments have accumulated reserves to use for program and facilities development. The school has always anticipated drawing down a portion of its reserves at the appropriate time for strategic development and investment and is now planning to do so in 2003/04.

REVENUE GROWTH – The increase in revenues, before transfers, over the 2002/03 Consolidated Budget Plan is 7.8%. As noted above, this slowing of revenue growth is related to:

- A decrease in endowment market value and yield resulting in a decrease in net payout,
- A decrease in gifts received thus far in 2002/03 leading to reduced expectations for new gift revenue in 2003/04, and
- A slower rate of growth of sponsored project activity, which has been quite rapid in recent years.

Year-end projections for 2002/03 show sponsored activities approximately 9.2% higher than year-end 2001/02, and the school's 2003/04 budget anticipates an increase of approximately 5.6%.

Expense Growth – The consolidated plan assumes that the school will recruit approximately 22 tenure line faculty and 16 incremental medical center line faculty during 2003/04. The expenses related to faculty recruitment, including program support and staff, are included in the Consolidated Budget Plan. The faculty and associated staff salary and benefits alone total approximately \$17.5 million. This anticipated increase in faculty, when added to changes in compensation and in benefits rates, accounts for approximately \$40.9 million or 61% of the total increase in expenses. The increased cost of benefits for both new and current faculty and staff of \$18.8 million makes up approximately 46% of the increase in total salaries and benefits. Approximately \$3 million is related to the tuition allowance for graduate students in the benefits total while almost \$13 million is related to the increase in the cost of benefits for faculty and staff who are currently here.

Non-salary expenditures on sponsored projects, both direct and indirect, account for another \$21.3 million or 32% of the anticipated increase in expenses in the 2003/04 budget. In addition, approximately \$4.5 million or 6.7% in non-salary expenditures has been planned for investments in strategic initiatives and interdisciplinary program under development, the increase in the school's portion of Clark Center operating costs and to support the transition to the new operating budget algorithm in the school.

Transfers to Plant and Endowment – The 2003/04 budget continues to reflect the need to complete planned maintenance activities that had been deferred in anticipation of the renovation of the Main Medical Center building, which was canceled two years ago. It also reflects the need to fund the planning expenses for the more focused project that replaced that renovation, the Stanford Medicine Instruction and Learning Environment (SMILE). These two components make up about \$6.5 million or approximately 42% of the transfers to plant. The remaining transfers to plant include an estimated \$2.5 million to build out the laboratories in the Clark Center that will be occupied by School of Medicine faculty or the new joint Department of Bioengineering, as well as \$2.0 million for ongoing planned maintenance, and approximately \$4.5 million for other small, but essential projects. Transfers to endowment have been made in recent years by clinical departments with surpluses and basic science departments with accumulated reserves as a mechanism to earn some return on the funds while holding them for future investments in new faculty or programs. The school has implemented a new policy to encourage the development of departmental reserves for emergencies and for academic development. The emergency reserves will be held in the endowment and the projected transfers in 2003/04 reflect the creation of some of these emergency reserves as well as the ongoing transfers for those departments with surpluses or accumulated current reserves.

Dean of Research

The Office of the Vice Provost and Dean of Research and Graduate Policy projects a consolidated budget deficit of \$2.8 million. About half of this deficit is related to endowment income funding shortfalls for the Stanford Graduate Fellowship (SGF) program. To address the funding problem, the Dean of Research has reserved \$1 million for anticipated SGF need. In addition, the number of new fellowships to begin in 2003/04 will be reduced from 110 to 80. The remainder of the deficit is due to commitments that are spread over several years and the increasing need to use restricted fund reserves for on-going program support. The anticipated space launch of Gravity Probe B in 2003/04 should result in a significant decrease in total research expenditures, along with an equal decrease in recovered revenues.

Vice Provost for Undergraduate Education

The Vice Provost for Undergraduate Education (VPUE) projects a budget deficit for 2003/04 of just over \$2 million, to be covered by existing fund balances. Drawing down these balances will limit flexibility to address future budget contingencies, which are anticipated as long as the endowment income shortfalls persist. In addition, by 2004/05 VPUE will have exhausted its largest expendable gift, which is forecast to support 11% of total expenditures in 2003/04. Offsetting this lost revenue in 2004/05 would fully expend remaining fund balances.

VPUE began implementing substantial undergraduate education initiatives in 1994/95. These initiatives have been supported through a combination of term funding sources, with the long-term goal of permanent funding through base general funds increments and new endowment gifts from the Campaign for Undergraduate Education (CUE). While base funding for VPUE has increased through CUE gifts and base general funds increments, a significant gap remains between the ongoing cost of the undergraduate programs and base permanent funding. This gap constitutes 37% of total forecasted 2003/04 expenditures.

The unpredictable revenue stream from CUE complicates closing this budget gap in 2003/04. Even though CUE donor pledge payments have exceeded earlier budget forecasts, actual incremental revenue from CUE gifts has fallen significantly short of forecasts because of the endowment performance and the resulting endowment income shortfalls. In 2003/04, 75% of the total market value of VPUE endowments is forecast to be invested in endowment funds subject to income shortfall, effectively halving the endowment payouts, decreasing anticipated revenue by $2.1 million. To offset the endowment income shortfalls, the VPUE budget plan increases the allocation of accumulated restricted fund balances, resulting in a projected fund balance decline of 25%.

As in 2002/03, VPUE proposes expenditure reductions from existing programs that exceed the mandated base general funds reduction of $906,000. These additional reductions permit VPUE to reallocate funds internally to support innovations which, though few in number, are important and substantive, affecting all undergraduates through investments in the writing and undergraduate research programs.

While the short-term financial context presents significant challenges, long-term forecasts project that, by the conclusion of CUE and the end of endowment income shortfalls, VPUE will achieve permanent endowment and general funds support for its consolidated budget.

Stanford University Libraries/Academic Information Resources

SUL/AIR is projecting a deficit of almost $1.5 million for 2003/04, using accumulated reserves to cover the shortfall. The budget for 2003/04 was reduced by about $2.5 million, or 7.5%, from 2002/03. This year's level of reduction means that there will be some staff layoffs, perhaps as many as 25. Taken with the last year's staff cuts of 17 people, the cumulative effects on service to faculty and students will be noticeable. For the most part, this round of staff cuts will be achieved without sacrificing the core expertise embedded in the bibliographic, processing, public services, conservation, and academic computing departments, although the community will experience reductions or slowdowns in all these services.

The Academic Technology Specialist program, which serves many departments and schools, will be reduced in scope. It is expected that such shifting of costs will result in reduced rates of adoption of CourseWork, the popular innovative course management system, despite its obvious values and efficiencies compared to more costly and less responsive commercial competitor systems. Spending in the area of equipment, maintenance, and services will be reduced concomitantly.

Vice Provost for Student Affairs

The Vice Provost for Student affairs (VPSA) projects a deficit of $479,000 for 2003/04, to be funded by existing reserves. The division's unrestricted reserves will be used again in 2003/04 to support staffing in Judicial Affairs and other initiatives. Multi-year expendable gifts from prior years will be used to support gift-related initiatives. During 2002/03, VPSA will draw down approximately $460,000 of designated fund balances to fund the lag in cash flow to Vaden Health Center following the restructuring of the student insurance program; initiatives in Judicial Affairs; the new Dean of Freshman and Transfer Students; and a portion of the division's return of general funds to the university. This reduction in designated fund balances will be partially offset by increases in endowment income fund balances due to professorship income that will be used over multiple years. To meet the general funds reduction goals for 2003/04, the division will increase several fees for graduate applicants and students, and will implement new fees for travel health advice and late registration changes. VPSA will also restructure positions, including reducing or eliminating several positions, reducing the annual addition to capital reserves for Tresidder, and cutting back non-salary expenses in several areas.

VPSA is largely funded by general funds, with most of the rest of the funding coming from revenues and fees related to student health, support from student room revenues for residential education programs, endowment income and gifts, and fees for such activities as new student orientation. The rate of inflation in medical costs currently exceeds the overall rate of inflation used to develop the budget, with the result that Vaden Health Center anticipates an operating budget deficit of approximately $80,000. The impact of this potential shortfall in funding on the financial condition of Vaden Health Center will be carefully monitored.

The 2003/04 consolidated budget includes $140,000 in increased base general funds to support programs in the six community centers. It replaces $150,000 of support provided as one-time funds for the past several years. This commitment of base funding sends a strong message to students, staff, faculty, and alumni that the university is committed to the centers, even in this difficult economic climate. One-time commitments to graduate student programs and staffing have been renewed for another year, as has support for an intensive summer orientation for Native American students.

Due to reductions in one-time funding, support for classrooms and classroom technology maintenance and renewal will be reduced significantly in 2003/04. If after next year the support for the classrooms and classroom technology cannot be increased to at least the previous levels, the number of classrooms equipped with technology will have to be reduced in order to adequately support the remaining classrooms.

Stanford Linear Accelerator Center

Total direct costs in 2003/04 for SLAC are expected to be lower than 2002/03, primarily because of the expected completion of the SPEAR3 project in October 2003; the budget for SLAC will be balanced. The SPEAR3 project, which upgrades SPEAR—the existing synchrotron radiation facility of the Stanford Synchotron Radiation Lab—is jointly funded by the Department of Energy (DOE) and the National Institutes for Health. SPEAR3 costs were about $16 million in 2001/02; they are expected to be $18 million in 2002/03 and $5 million (DOE only) in 2003/04. In 2003/04, other sponsored direct costs will return to the pre-SPEAR3 level.

SLAC projects the total salary expense to be level between 2002/03 and 2003/04, in part due to the university's salary freeze. The actual budget in 2002/03 for High Energy Physics (HEP) is $5 million less than for 2001/02, and much lower than what was requested. Therefore, in addition to cutbacks in all the HEP program elements in the current year, SLAC has to rely on three staff-related cost saving measures as well. A voluntary layoff program was initiated and 40 staff participated in the program; all staff funded by the HEP program will take four days leave without pay during the week of July 4th; and all HEP-funded staff will take vacation during 2002/03 equal to at least the vacation earned during that year.

SLAC's next big construction project will be funded by DOE. DOE still provides most of the funding for SLAC, although in recent years SLAC has been involved in interagency projects such as SPEAR3 and GLAST. Congress has recently approved the construction of the Linac Coherent Light Source (LCLS) project that will also utilize the linear accelerator at SLAC. LCLS will build the world's first x-ray free electron laser, a fourth generation x-ray light source. The total estimated cost for the project is $200 to $240 million and 2002/03 is the start of the design phase. In 2002/03, funding for design is $6 million, and in 2003/04 and 2004/05, $7.5 million and $20 million are expected respectively. Construction is expected in 2005/06 through 2007/08.

Stanford Alumni Association

The Stanford Alumni Association (SAA) is projecting a deficit of approximately $2 million for 2003/04. University funding in 2003/04 will decrease by approximately $900,000 compared to 2002/03. In addition, due to the uncertain political and economic environment, SAA is also projecting a large decrease in its net revenues generated from its travel/study programs. Consequently, SAA will decrease significantly the costs of both programs and staff to balance its budget with revenues of $32.7 million. Despite these program and staff cutbacks, SAA is confident that it will be able to maintain its focus in 2003/04 on its three main priorities: building Stanford's presence in the regions; integrating Stanford's alumni into the life of the university; and strengthening class identity.

Information Technology & Systems Support

ITSS has consolidated revenues of approximately $86 million, funded by both general funds and service centers. The general funds budget reduction for 2003/04 is approximately 9%, including one-time funding variances. ITSS will achieve these reductions primarily through staff reductions, many through attrition.

ITSS provides services such as Networking, Security, Help Desk and Academic Computing that are funded directly by general funds of about $14 million. In addition there are four major service centers:

- Communication Services (voice, video, and data communications) – $34 million,

- Computer Resources (desktop & server installation & maintenance) – $6 million,
- Instructional Programming (lecture, classroom and hands-on training) – $2 million, and
- Stanford Data Center (hosting, operations, and core administrative systems) – $30 million.

ITSS forecasts a deficit in 2003/04 in the Stanford Data Center that could well exceed $1 million. This deficit is caused by the need to operate both the legacy mainframe systems and the new administrative systems in parallel for about half the year, while at the same time trying to meet budget reductions. To meet those reductions, ITSS will eliminate services such as departmental technology assessments and academic R&D, as well as significantly reduce support for training, technology consulting, academic hardware, student dorm networks and support for enterprise administrative systems.

Land & Buildings

The Land & Buildings organization consists of the departments of Facilities Operations, Department of Capital Planning, Department of Project Management, University Architect/Planning Office, and Office of the Vice Provost. Overall, the unit is projecting a surplus of $650,000 in 2003/04. Half of the surplus results from endowment income in support of special campus houses that exceeds the annual operations of the houses. The excesses are reserved for major planned maintenance projects. The other half of the surplus is in the Department of Transportation and will be used along with existing reserves for the purchase of the fleet of Marguerite buses.

In 2003/04, Land & Buildings faces $1.9 million in budget cuts, resulting in reductions in maintenance services to the campus and reductions in funding for planning and conservation projects. In addition, staff in Land and Buildings will be reduced in both generally funded and service center-supported areas due to the slowing capital plan and the anticipated reduction in customer-funded work.

Approximately $2.25 million was funded for O&M and utilities associated with the completion of new buildings, including Lokey Lab, the Off-Site Library Collections facility, and Pasteur Parking Structure. Electricity prices have stabilized, but natural gas prices are expected to rise, causing increases in the steam rate. In addition, purchase prices for domestic water, lake water, and sewer are projected to increase. The Cogen contract was renegotiated (effective January 1, 2003) and is projected to save over $500,000 in 2003/04 due to a decrease in labor costs for plant operations and maintenance.

Stanford continues to preserve planned maintenance project funding for buildings. The university continues to survey the physical condition of buildings, including those that are slated for renovation/replacement in the Capital Plan but have uncertain funding. This will allow the department to prioritize the use of planned maintenance funding.

IMPACT OF THE CAPITAL BUDGET ON THE CONSOLIDATED BUDGET FOR OPERATIONS

The 2003/04 Capital Budget calls for $151.6 million in expenditures on capital projects. The impact of these expenditures on the Consolidated Budget for Operations is shown in two places. The first is $13.7 million in incremental internal debt service for those projects that will be coming on-line in 2003/04 or which had less than a full year of debt service incurred in 2002/03. Of this total, $6.4 million will be borne by the unrestricted (general funds and designated funds) portion of the Consolidated Budget. The second is $5.8 million for the incremental operations, maintenance, and utilities costs required to run those facilities, $4.6 million of which will be funded by general funds. The details of the Capital Budget for 2003/04 are included in Section 3 of this document.

PROJECTED STATEMENT OF ACTIVITIES

The table on page 27 compares the Consolidated Budget for Operations with the projected operating results section of the Statement of Activities. The Statement of Activities is analogous to a corporate income statement and is part of the audited annual financial statements, published in the Annual Report.

Stanford University, as a non-profit institution and a recipient of restricted donations, manages itself internally according to the principles of fund accounting. It manages its cash resources according to categories of funds, which distinguish different legal and management constraints. There are four divisions in the accounting system reflecting the different categories of funds: 1) the Current Division, which includes revenue to be used for ongoing operations — e.g., tuition revenue; 2) the Endowment Division, which incorporates all of Stanford's endowment funds; 3) the Plant Division, which includes all funds to be used for capital facilities purposes; and 4) the Student Loan Division, which includes those funds to be lent to students. The Consolidated Budget principally reflects planned activity in the Current Division and is shown on a modified cash basis. The Consolidated Budget also includes transfers to the other divisions of the accounting system. For example, a school may choose to transfer operating revenue to the Plant Division in anticipation of using those funds for a future capital project. Similarly, a department may decide to move unspent current funds to the Endowment Division, either to maximize the return on those funds or to build capital for a particular purpose.

In addition to its management accounting practices and donor imposed restrictions, Stanford also has external reporting requirements. The university prepares its annual financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and includes revenue and expense accruals and other adjustments/reclassifications necessary to comply with GAAP.

The Consolidated Budget for Operations focuses on the operating revenues and expenses of the university by fund type and the use of funds to cover those operations. It also reports the transfer of operating funds for investment in funds functioning as endowment, for investment as student loan funds, and to be used to cover capital expenditures.

Converting the Consolidated Budget into the Statement of Activities

In order to relate the Consolidated Budget to the Statement of Activities, it is necessary to translate between the "fund accounting" presentation and the "GAAP" presentation. For example, the Consolidated Budget reports as expense the use of funds to acquire equipment. The Statement of Activities does not recognize this use of funds as an expense; rather, the capital equipment expenditure increases assets in the Statement of Financial Position (similar to a corporate balance sheet). The relevant expense that is recorded in the Statement of Activities is the annual depreciation charge of both newly acquired assets and all other assets capitalized by the institution. Additionally, the Statement of Activities incorporates the activities of other separate, wholly-owned entities.

The primary differences between the Statement of Activities and the Consolidated Budget are two-fold: first, as discussed above, the Statement of Activities is prepared on an accrual basis in conformity with GAAP while the Consolidated Budget is prepared on a modified cash basis. Second, the Statement of Activities also includes some reclassifications from expense to revenue and adds information for other wholly-owned entities which must be consolidated into the university's financial statements.

The following adjustments are made to the Consolidated Budget to conform the budget to the GAAP basis Statement of Activities format:

Adjustments from modified cash basis to accrual basis:

a) The Consolidated Budget projects that the schools will transfer over $98 million of current funds to other fund classifications, including plant ($90.5 million), student loans ($2.1 million), and funds functioning as endowment ($6.0 million). Fund transfers are not considered expenses for GAAP purposes.

b) The budget includes the projected current year's purchases of capital equipment as expense. For GAAP purposes, the cost of capital equipment is recorded as an asset on the Statement of Financial Position and recorded as depreciation expense ratably over the useful life of the asset. As a result, $66.2 million is subtracted from Consolidated Budget expenses. Effective September 1, 2003, the university will change the threshold above which equipment purchases are capitalized, from $1,500 to $5,000. Net of current year's depreciation expense, this change will result in approximately $13 million additional operating expense in the Statement of Activities.

c) The Statement of Activities includes current year's depreciation expense related to capital assets being depreciated over their useful lives. Depreciation expense includes capital equipment assets (b above) plus other capital assets, such as buildings and land improvements. This adjustment adds $195.0 million of expense.

Comparison of Consolidated Budget and Consolidated Statement of Activities for Unrestricted Net Assets, 2003/04

[in millions of dollars]

Statement of Activities				Fiscal Year 2003/04		
2001/02 Actuals	2002/03 June 2002 Budget	2002/03 Projected Year-End		Projected Consolidated Budget	Adjustments	Projected Statement of Activities
			Revenues and Other Additions			
			Student Income:			
175.5	181.8	184.6	Undergraduate Programs	191.9		191.9
157.8	174.6	166.7	Graduate Programs	185.0		185.0
78.3	90.0	84.4	Room and Board	92.4		92.4
(106.7)	(108.8)	(114.9)	Student Financial Aid[e]		(123.6)	(123.6)
304.9	337.6	320.7	Total Student Income	469.3	(123.6)	345.7
			Sponsored Research Support:			
439.8	472.7	475.0	Direct Costs—University	505.9		505.9
227.8	219.9	230.0	Direct Costs—SLAC	223.0		223.0
134.0	135.1	145.1	Indirect Costs	156.7		156.7
801.6	827.7	850.1	Total Sponsored Research Support	885.6		885.6
182.8	187.9	191.2	Health Care Services[f]	225.8	(18.2)	207.6
104.3	140.0	105.0	Expendable Gifts In Support of Operations	105.0		105.0
			Investment Income:			
377.8	403.6	382.1	Endowment Income	378.5		378.5
69.4	86.1	68.6	Other Investment Income	74.8		74.8
447.2	489.7	450.8	Total Investment Income	453.2		453.2
238.8	254.2	238.8	Special Program Fees and Other Income[g]	233.7	5.1	238.8
39.8	50.0	50.0	Net Assets Released from Restrictions	50.0		50.0
2,119.4	**2,287.1**	**2,206.7**	**Total Revenues**	**2,422.6**	**(136.7)**	**2,285.9**
			Expenses			
1,104.5	1,133.4	1,192.8	Salaries and Benefits[d,g]	1,233.0	4.1	1,237.0
227.8	219.9	230.0	SLAC	223.0		223.0
			Capital Equipment Expense[b]	66.2	(66.2)	
175.6	194.8	186.0	Depreciation[c]		195.0	195.0
3.9			Financial Aid[e]	123.6	(123.6)	
624.7	688.4	647.1	Other Operating Expenses[f,g]	697.2	(16.4)	680.8
2,136.5	**2,236.5**	**2,255.9**	**Total Expenses**	**2,343.0**	**(7.2)**	**2,335.9**
(17.1)	**50.6**	**(49.2)**	**Revenues less Expenses**	**79.6**	**(129.6)**	**(50.0)**
			Transfers			
			Additions to Funds Functioning as Endowment[a]	(6.0)	6.0	
			Transfer to Plant/Student Loan[a]	(92.6)	92.6	
			Total Transfers	**(98.6)**	**98.6**	
(17.1)	**50.6**	**(49.2)**	**Excess of Revenues Over Expenses After Transfers**	**(19.0)**	**(31.0)**	**(50.0)**

d) The Statement of Activities includes accruals for certain benefits, including pension and post retirement benefits that are required by GAAP to be shown as expense in the period that the employee earns the benefit. The budget only includes actual cash payments made for pension and post-retirement and other benefits in the current period. Adjustments amounting to an additional $2.6 million in Benefits expense are made to the Consolidated Budget for Operations for these purposes.

Reclassifications or other modifications for consolidated reporting purposes:

e) Student financial aid is required by GAAP to be shown as a reduction from revenue. In the Consolidated Budget, financial aid is reported as an operating expense. Accordingly, $123.6 million of student financial aid expense is reclassified as a reduction of revenue.

f) For GAAP purposes, Health Care Services revenues received from the Hospitals are reported net of expenses that the Hospital reimburses to the university. The Consolidated Budget presents the revenues and expenses on a gross basis. This adjustment reclassifies $18.2 million from Other Operating Expenses to Health Care Services revenues.

g) Activities of the Sierra Camp LLC, are consolidated in the Statement of Activities, but are not included in the Consolidated Budget. This adjustment adds $5.1 million in Special Program Fees and Other Income revenue, $1.5 million in Salaries and Benefits expense, and $1.8 million in Other Operating Expenses.

In summary, the impact of these adjustments increases the projected $19 million Consolidated Budget deficit by an additional $31 million, bringing the projected deficit in the Statement of Activities to $50 million.

Section 2
Academic Initiatives and Plans

This section focuses on the programmatic elements of the Budget Plan, describing the principal planning issues in the schools, major labs and institutes, and academic support areas.

Graduate School of Business

The Graduate School of Business (GSB) will remain under a high degree of competitive and financial pressure in 2003/04. Competition to attract the best people, particularly faculty and students, remains very high. While the school has made some difficult decisions to restructure services or postpone projects, the GSB will continue to invest in the key elements of its program: recruiting and retaining the next generation of faculty, developing new research initiatives such as a Center for Leadership Development and Research and the Center for Global Business and the Economy, continuing to invest in cross-disciplinary and cross-school efforts such as the Center for Social Innovation, and supporting key services for students and alumni.

The school's programmatic priorities for 2003/04 include:

Teaching and Research

Faculty and Recruiting – Recruiting efforts will focus on hiring faculty to replace retirements and turnover, with no net growth in faculty.

Research Centers – The GSB continues to realize benefits from existing research centers. The school plans to raise funds for two of the current centers — the Center for Entrepreneurial Studies (CES) and the Center for Social Innovation (CSI). Each center provides a focal point for teaching, research and outreach in a particular area of faculty interest.

The newest center, CSI, secured initial funding from foundations and individual alumni and has expanded its activities in the past year. The Center is both cross-disciplinary and cross-school. Some recent activities include: Executive Programs for Nonprofit Leaders and the Stanford Social Innovation Review, the Stanford Project on Emerging Nonprofits, and the Stanford Educational Leadership Initiative, which is a joint program between the GSB and the School of Education. CSI also manages the Public Management Program, which supports courses and student programs; the Stanford Management Internship Fund, which supports MBA's who work with nonprofit organizations during their summer internships; and the Alumni Consulting Teams, which provide *pro bono* advice to nonprofit organizations.

In addition, the school plans to launch both the Center for Leadership Development and Research, and the Center for Global Business and the Economy in 2003/04. There is considerable interest among faculty, students, and alumni to have the GSB focus on these important business topics through research centers.

Student Services

Given the difficult economy, particularly locally, the demand for career services is very high, for both students and alumni. In addition, the needs of international students require specialized attention that the GSB is providing for the first time to its students from overseas.

The GSB estimates a shortfall of fellowship funds for both 2002/03 and 2003/04 and possibly into the future. The weak economy along with tuition and fee increases has caused a substantial increase in student need levels. The school is committed to providing need-based support and efforts are underway to raise additional fellowships to meet these needs.

Alumni Services

The GSB is engaging alumni more than ever before. In addition to the very popular reunions and conferences held for many years, there are new ways for alumni to engage with the GSB. Through a focus on lifelong learning, the school is creating opportunities for alumni to tap its knowledge base. The school is developing a CD-ROM based faculty seminar series and is also providing many interesting web-based resources including videos of faculty and other guest speakers, discussion topics, and library database access. The GSB is also using alumni in admissions and in new student orientation, as interviewers and as mentors to help incoming students understand both the culture of the GSB as well as the obligations and responsibilities that come along with a Stanford MBA.

Executive Education

The GSB has developed a new program in Corporate Governance. The school is also developing new custom programs for existing and new executive education customers. In addition, the school will continue efforts to develop CD-ROM-based takeaway course modules and educational materials that reflect the interests of its faculty. Joint efforts to develop and market these types of products with the Harvard Business School have enjoyed some success and will continue.

School of Earth Sciences

The School of Earth Sciences has plans for a number of programmatic priorities. Paired with these priorities are a number of challenges. The school faces a potential for eight faculty retirements by 2005. In addition to the efforts it will take to identify and recruit the best replacements, start-up, lab renovation, and recruitment costs will be substantial. Current projections run as high as $4.8 million. Existing school reserves will not be large enough to cover these costs. The school also feels that faculty retention could be a problem. Despite aggressive salary programs for the past two years, significant gaps still exist with faculty salaries in comparison to peer institutions.

The school has several facilities issues. Funds will be needed to solve some pressing space issues for the Interdisciplinary Program in Environment & Resources (IPER), as well as storing its research and teaching collections. Unrestricted funds held as reserves at the dean's level have been used to address a number of critical issues, including last year's general funds reduction, faculty salaries, and lab renovations.

The school plans to launch or further develop the following academic initiatives:

Stanford's Initiative on the Environment – The School of Earth Sciences is playing a leadership role in the "Environmental Initiative," an exciting and dynamic program cutting across campus units and focusing on environmental and sustainability issues. The schools of Law, Engineering, H&S, and the Institute for International Studies, together with Earth Sciences, are working hard to find ways to build on combined strengths and integrate them across disciplinary borders. It is clear that a campus-wide "institute for the environment" is getting closer to becoming reality, but Earth Sciences will continue to require resources to maintain and strengthen its contribution to the cross-campus program. In the longer run, the school will need resources to expand and support new faculty positions and research and teaching collaborations. Now, however, it is contributing to the initiative in three important ways: IPER, Earth Systems and GCEP.

Interdisciplinary Program in Environment and Resources – This new interdisciplinary program began in 2002/03 and anticipates thirteen students for 2003/04. It is currently funded by a grant from the Luce Foundation, which will expire in 2004/05.

Earth Systems Program – This interdisciplinary program continues with over 130 undergraduate and co-terminal Masters students. Although funds have been raised to support the program, they are not adequate to meet basic operational needs.

Global Climate and Energy Project (GCEP) – This is a recently launched interdisciplinary research program, housed within the independent labs, centers, and institutes of the Dean of Research. The program should be self-sufficient as soon as contract funding commences. In the meantime, start-up funds have been requested.

Undergraduate Teaching – Two of the school's departments are making great efforts to reinvigorate their undergraduate programs. They will need resources in order to be successful.

In addition to these priorities, the school will be embarking on a strategic planning exercise during the 2003/04 academic year. The school is under new leadership and has experienced close to a 30% turnover in faculty over the past six years. It is an appropriate time to establish a new vision and goals for the next decade, especially since it will see a significant number of faculty retire over the next two years.

School of Education

Over the next year the School of Education will focus on three programmatic goals: 1) to develop new programs and to refine existing academic programs; 2) to increase the visibility of the work being done to improve education and communities for youth; and 3) to expand its efforts in the area of learning and technology. Challenges facing the school include the recruitment of top faculty and students to the Bay Area and its high cost of living; the expansion of research and professional development programs given the limitations on space and infrastructure; and the growing demands for technology support.

The school will design a model elementary teacher education program which will prepare teacher leaders, drawn from Stanford undergraduates, who share a set of core values that include a commitment to social justice, an understanding of the strengths and needs of a diverse student population, and a dedication to equity and excellence for all students. Stanford juniors accepted to the program will take courses in their junior and senior years before entering the fifth year MA/credential program. The first juniors will be accepted into the program's course series beginning in fall, 2003. The Administrative Policy Analysis and the Prospective Principals' programs have been put on hold while they are reviewed and revised.

School of Education projects that involve sustained partnerships with practitioners and policy makers include:

- Policy Analysis for California – a cooperative effort with UC Berkeley's School of Education to provide analysis and assistance to state policy makers,
- Stanford Center on Adolescence – a research center which promotes interdisciplinary research related to adolescents,
- Charter High School in East Palo Alto – a professional development school for Stanford's Teacher Education Program,
- Stanford Institute for Higher Education Research – a research center which examines contemporary higher education planning and policy issues from a wide range of analytical perspectives, and
- MacArthur Network on Teaching and Learning – a network to share knowledge on research and development and to examine strategies for connecting research and development with practice.

A new doctoral program, Learning Sciences and Technology Design, launched in fall 2002, attracts a talented and diverse set of students. The learning sciences are dedicated to the study and design of psychological, cultural, and technological processes that support learning. Another area of technology focus, the Secondary Teacher Education Program, continues to be a challenge. To keep pace with new opportunities for using technology to enhance education, the school has invested resources to integrate technology into the curriculum and to offer technology training to the students in the Teacher Education Program. To support these and other technology initiatives, the school has made a substantial investment to support the infrastructure needed to provide service and tools to the varied programs within the School of Education.

To address a severe space shortage and to gain visibility for partnership programs with practitioners and community leaders, the school hopes to raise the funds needed to reconstruct the former Career Development Center Building. Projects that will be housed in the new building include the California School Redesign Network and Performance Assessment Collaborative - an initiative to serve practitioners throughout California by assisting them in designing schools and by conducting research on small school designs and outcomes; and the John Gardner Center for Youth and Their Communities – a center inspired by the late John Gardner in which Stanford faculty and students work with community leaders to create communities that promote healthy youth development.

School of Engineering

The School of Engineering is deeply involved in several new initiatives that will position it to continue its future leadership in engineering research and education. Virtually all of these initiatives are multidisciplinary and will leverage expertise and potential across departments, schools and disciplines at Stanford. While the school will maintain and build upon historical strengths in information sciences, it plans to invest significant resources in programs focused on bioengineering, environment and energy, nanotechnology, photonics, and computational mathematics and engineering. The challenges Engineering experiences are those associated with the budget issues facing the entire institution. The school is challenged to maintain its basic teaching and research mission along with a quality of life for Engineering departments and faculty that will inspire them to focus on the great opportunities it has for the future.

The new *Bioengineering* Department, which reports both to Engineering and Medicine, has been created. A chair and co-chair have been appointed, faculty searches are under way, and plans for admitting graduate students in 2004 are driving curriculum development and other teaching programs. As anticipated, student interest at both the undergraduate and graduate level is tremendous. Initially headquartered in the Clark Center, the department will complement Bio-X research activities as well as biomedical activities in several other engineering departments.

The new *Environment and Energy* initiative will build on current strengths among environmental engineering faculty and pockets of focused excellence in other departments. It will also provide a tremendous opportunity to leverage research and teaching across Stanford, including Earth Sciences, Natural Sciences, Social Sciences, Law and Business. GCEP will bring huge financial resources to energy research across campus; it will also bring a unifying and inspirational focus to efforts in mechanical engineering, chemical engineering, materials science, and management science. Faculty searches that focus on environment and/or energy are in progress and under discussion in several engineering departments.

Nanotechnology is a very broad and frequently overhyped term. At its core, however, there are wonderful opportunities for basic research. At Stanford, over one hundred faculty work on diverse topics that could be considered nanotechnology. The unifying prerequisite for this kind of research is access to sophisticated and expensive equipment that will allow faculty and students to build, characterize, and test nanostructures. It is clear from the success of the Center for Integrated Systems (CIS) that shared equipment facilities not only make economic sense, but also provide a way to build multidisciplinary relationships and to create a community of scholars. The school has made great strides in enhancing the nanofabrication facility (CIS) and building a robust nanocharacterization facility (located in McCullough). The school intends to move forward with similar centers related to soft materials and computation, as well as enhancing the facilities at the Stanford Synchotronic Research Laboratory at SLAC.

These initiatives, along with new programs in photonics and computational mathematics, are creating a sense of excitement about the future of the school, both internally and externally. They are building the academic infrastructure for a future where the opportunities for engineering are clearly multi-disciplinary. The school is prepared to seize these opportunities.

Hoover Institution

In 2003/04, the Hoover Institution will continue its program of public policy research, engage in active collecting of archival and unique library materials, distribute the research findings of the Hoover fellows, and disseminate information about the library and archives collections through an expanding outreach and communications program. The Institution's overarching purposes are: to collect the requisite sources of knowledge pertaining to economic, political, and social change and to understand their causes and consequences; to analyze the effects of government actions relating to public policy; to generate, publish, and disseminate ideas that encourage positive policy formation; and to convey to the public, the media, lawmakers, and others an understanding of important policy issues and to promote vigorous dialogue.

The Institution's research program continues its focus on initiatives that embrace the principles that define the Hoover Institution's mission: individual, economic, and political freedom; private enterprise; and representative, yet limited, government. From the academic disciplines of economics, history, law, and political science, Hoover fellows strive to conceive and disseminate ideas defining a free society in the form of institutional book projects, conferences, and forums. In addition, fellows pursue their individual research in U.S. politics, economics, and political economy and area studies of foreign policy and international security.

The goal of the research program is to produce analytical studies and other publications that convey important concepts to a broad audience, converting abstract academic scholarship to descriptive applications that minimize jargon known only to specialists in the field. Of the nine research initiatives, major emphasis will continue on American Public Education, which is completing the fifth year of a multi-year effort lead by Hoover's Koret Task Force on K-12 Education. The Property Rights, the Rule of Law, and Economic Performance initiative provides an overview of the importance of property rights to a free society. The purpose of the initiative on American Individualism and Values is to embark on an intellectual inquiry into "the American way of life" and its appropriate "safeguards." The National Security Forum represents the ongoing effort to involve Hoover fellows, other scholars, practitioners, and government officials to examine specific issues relating to international security. The principal goal is to produce writings that summarize a dialogue of experts for a general audience.

Research activity continues on the Institution's five other initiatives—Accountability of Government to Society; Capital Formation, Tax Policy, and Economic Growth; End of Communism; International Rivalries and Global Cooperation; and Transition to Democratic Capitalism—but at a lower level of activity.

With the reorganization of the Hoover Library and Archives and the Stanford University Libraries, the Institution has returned to its original mission, as envisioned by Herbert Hoover: to gather archival and special collections; to preserve these rare documents on modern history; and to serve as a repository for rare and unique materials. While the collecting efforts focus on all aspects of political, economic, and social change, emphasis is being placed on three collecting priorities: the history of communism; transition to democracy and economic freedom; and cultural conflict, especially between the West and the Islamic movement.

An area of special importance is the expanded effort aimed at preserving the unique materials collected during the twentieth century to ensure they are not lost through damage, material deterioration, and normal wear and tear. To that effect physical preservation activities are increasing, as are vastly expanded digitalization projects that will make the collections safer and more readily accessible to users on-site and over the Internet.

Hoover fellows and other scholars actively use material found in the archives in support of their research and publications. A series of books based primarily on original documents found in Hoover's Russian/Confederation of Independent States collection continues to be published in English and in Russian.

School of Humanities & Sciences

In 2003/04, the School of Humanities & Sciences (H&S) will continue to build on the momentum of the strategic planning initiative that was launched in connection with the university-wide needs assessment process. Central to all plans is the recruitment and retention of outstanding faculty who have world-leading stature as scholars and excellence as educators. Toward this end, the dean of the school and other academic staff will work closely with the departments to develop long-range hiring plans that will maintain the highest quality in the strongest departments with selective and limited growth. Modest investments will also be made to bring other departments to the next level in excellence.

In the humanities, growth will be focused within three general areas: literatures and cultures and the expression of imagination through language and text; history and civilizations encompassing the departments of History, Classics and Religious Studies; and philosophy and the structure of thought. Plans also are under way to establish a Film Studies program that will include new appointments in film history in the Department of Art and Art History, and related appointments in the literature departments where possible. The outstanding Documentary Film program in the Department of Communication will consolidate with these new faculty, and the school will add programs to allow students to study fictional film through writing and film-making. Facilities planning for the Departments of Art and Art History, Drama, and Music is also receiving a high priority.

Science facilities, both building and instrumentation, constitute the major need for the natural science cluster. A comprehensive regional plan will be put in place to make maximum use of existing facilities and to plan for new facilities for research and for innovative education. The excellence of H&S' six top-ranked natural science departments will be sustained through modest growth in some new frontier areas and through recruiting both at the junior and senior level the top researchers in the world. In parallel, H&S will establish a Fellows program in Physical and Mathematical Sciences, which will bring the most outstanding young scholars in the world to campus.

In the social sciences, the most important need is renewal of the faculty in top departments and selective rebuilding and consolidation in other programs. The school will facilitate interactions among social science departments by allowing the relatively small faculty to benefit from connections. At the center of this strategy, the school will establish an Institute for the Social Sciences. This will provide a means to bring in outstanding visitors to spend a year of work at Stanford and will function as an in-house sabbatical location for faculty much as does the Humanities Center. The school will also establish a quantitative center for social science research that will enhance one of Stanford's most important themes in social science research: the use of mathematical and quantitative modeling to understand fundamental patterns in social, political and economic life.

School of Law

Over the last several years, the Law School has maintained excellence in its faculty and student body, enhanced the quality of its public intellectual life, and begun dramatic and long overdue renovations of its 25-year-old physical plant. Going forward, the Law School's key challenges are to keep replenishing its faculty, to enhance its newly expanded clinical education programs, and to continue to build a law school campus whose physical infrastructure facilitates academic interchange and collaborative study. Specifically, the Law School aims to:

- Rebuild its tenure-line faculty from less than 40 professors to its historic level of 45, emphasizing the hiring of junior faculty members and specialists in underrepresented fields such as international, constitutional, and regulatory law,
- Build its clinical faculty line from 2 to 5 professors whose specialty is training students to represent actual clients in live cases, emphasizing practical training and the development of professional responsibility, while continuing to support the new Stanford Community Law Clinic in East Palo Alto,
- Begin the renovation of the Law School Library so as to provide attractive and technologically modern study areas for students while housing collections in ways that make more efficient use of scarce space and that reclassify those collections for contemporary use,
- Build a residential complex for law students adjacent to the Law School to create an integrated community in which collaborative study, debate, and interchange flow seamlessly from classroom to dorm room, and
- Continue to build interdisciplinary research, teaching and policy programs in law, economics and business; law, science and technology; environmental and natural resource law; and international law, business and policy.

While focusing on these initiatives for future development, the Law School will need to continue providing on an annual basis support for existing programs that are essential to maintaining its competitive position in relation to peer schools, including:

- Summer research support to faculty members,
- Housing assistance to recruited faculty members on top of university programs,
- Instruction in legal research and writing (recently upgraded to satisfy ABA reaccreditation),
- Loan repayment assistance to graduates in low-paying public interest jobs, and
- Maintenance of strong levels of student service in the Law School's independently operated offices of admissions, financial aid, registrar, career services, and public interest programs.

School of Medicine

Since the latter half of 2001, the School of Medicine has worked hard to develop its strategic vision, initiatives, and plans for the first part of the 21st Century. To do so the school has focused on its core missions in education, research, patient care, and service to its communities, local and global. The school has formulated an action plan that is codified in a document entitled "Translating Discoveries" which has been shared widely among members of the Medical School community, as well as with leaders throughout the nation. While progress has been made in reaching many of the school's short-term objectives, the majority of the most important longer-term ones will take years to fully achieve. These include changes in education for medical and graduate students, new directions in research and enhancements of a number of clinical programs. These programs will require the efforts of many and ultimately involve new programs and facilities.

It is important to underscore that quite purposefully the school's strategic planning efforts have simultaneously engaged its multiple missions and support structures. The changes made in one mission area will surely impact others, making it essential to look at the interrelatedness of the threads that form the fabric of the academic medical center. Furthermore, aligning strategic plans and initiatives with the resources needed to achieve them —through administration and finance, information technology, communications and philanthropy — and with the hospital partners is equally essential.

Several changes related to key flows of funds are underway in the School of Medicine and will be implemented in fiscal year 2003/04. The first of these is the school's formula with the university. During the last year, school and university staff have worked to define an appropriate and logical approach to calculating the amount that the school should contribute to the university to cover the cost of services provided to the school. The new approach takes the form of a "tax" on all sources of revenue and will increase the amount that the school contributes when compared with the previous formula. While this is an increase in cost to the school at a time when there are many calls on resources, Medicine is committed to covering its fair share of costs and believes that this is a reasonable and appropriate change.

The second change comes in the formula whereby the school of Medicine distributes funds to the academic units of the school. The current formula has been in place for almost two decades and no longer reflects the many facets of activities in the school. A committee of faculty and staff was convened in summer of 2002 to develop a new algorithm that specifically identified funding for educational activities and addressed more general needs for administrative and faculty support. The committee developed a series of principles upon which the new algorithm is based. The challenge faced in implementing the new algorithm is the reallocation of funding from some departments to others, creating needs for transition support as well as potential needs for some ongoing support. Despite the disruption of historical funding patterns, it is the belief of the school that the new algorithm appropriately recognizes its priorities and will be an effective formula over the longer term. The school is committed to working with all of the academic units to make certain that all are appropriately recognized and supported since the strength of the school is entirely dependent on the strength of the individual academic departments.

The third flow of funds that will change in the upcoming fiscal year is the funding that is provided by the hospital to the clinical departments. This flow of funds has been reduced in the last years as Stanford Hospital and Clinics has been addressing its financial crisis. While SHC has made significant strides in improving operations and financial performance, there are many longer-term capital needs that SHC still needs to address. As a member of the Medical Center, the school is actively working with the hospitals to move onto a more stable financial base for both the short and long term. The new funds flow approach attempts to align the mission of the school with that of the hospitals and to support them in a manner that is consistent, fair, and transparent.

Fiscal year 2003/04 promises to be one of the most challenging budget years that the school has encountered in some time. The current economic climate has affected the return on endowment and expendable funds, as well as the success in generating substantial gift funding. Proposed funding of medical research by federal agencies is also much less than has been the case in the last five or more years. The changes in the formulas with the university and the hospitals have either increased the cost to the school or have limited the flow of funds to the school and the change in the school's distribution of funds to the departments will likely result in increased costs in the short term to facilitate the transition. The result of all of these changes is the need to choose very wisely which strategic initiatives can move forward.

Vice Provost and Dean of Research

The Office of the Vice Provost and Dean of Research and Graduate Policy has responsibility for the development and oversight of research policy; oversight of the independent laboratories, centers, and institutes; policy development for Stanford's graduate education program; and management of the Offices of Technology Licensing (OTL), Environmental Health and Safety (EH&S), and Research Compliance.

The ten independent laboratories, centers, and institutes reporting to the Dean of Research encourage and support Stanford's interdisciplinary research and scholarship and currently account for about 20% of Stanford's research volume. These units provide strong programs that both complement and supplement Stanford's departmentally based research and scholarship, in addition to attracting excellent students and external scholars. The newest of these activities are the Stanford Center for Innovations in Learning (SCIL) and the Bio-X program for Bioengineering, Biomedicine, and Biosciences at Stanford, an emerging collaboration of faculty in the Schools of Engineering, Medicine, and H&S. The program will be housed in the new Clark Center for Biomedical Engineering and Sciences, which will open in the summer of 2003.

The Stanford Graduate Fellowship program, administered by the Dean of Research Office, now supports 359 outstanding graduate students in 34 fields in science, engineering, and the social sciences. Of the Stanford Graduate Fellows, 72 also earned nationally competitive fellowships such as National Science Foundation Fellowships and are honored as joint fellows.

Vice Provost for Undergraduate Education

In 2003/04 the Vice Provost for Undergraduate Education (VPUE) will sustain partnerships with faculty, departments, programs, and schools for the benefit of all undergraduates, fostering a university-wide community of teachers and mentors through a variety of approaches. VPUE programs focus on a continuum of intellectual skills that complement students' academic progress toward a degree. They articulate a dynamic path through the curriculum, engaging students in serious critical and scholarly inquiry in their first two years, leading to research partnerships with faculty. Budget reductions for 2003/04 were guided by the principle of minimizing the impact on student academic and intellectual life, while taking care not to erode important relationships with schools, departments, and student affairs offices. Innovations, though few in number, are substantive and important, affecting all undergraduates. Program growth in the VPUE is accomplished largely through reallocation, and emphasizes two areas—writing and undergraduate research.

The new Writing and Rhetoric Requirement (WRR) takes effect with the Class of 2007, entering in fall, 2003, and ends Advanced Placement exemption. It requires all students to complete two writing and rhetoric courses as well as the Writing in the Major (WIM) course for a total of three required courses; the first course, in the freshman year, emphasizes argument, research skills, and rhetorical strategies; the second, to be completed by the end of the sophomore year, emphasizes writing for oral presentation and communication; the third, the WIM course, focuses on disciplinary standards of excellence in writing in the major.

During the 2002/03 academic year, curricula and pedagogy for the new second-level WRR course were developed on a pilot basis by the Program in Writing and Rhetoric, which tested innovative approaches to instruction. The 2003/04 budget supports 30 of these new courses, and will utilize to full capacity two technology-enhanced classrooms in the newly renovated Wallenberg Hall. These classrooms enable an interactive approach to workshop instruction, promoting active student involvement in their own learning. Additional facilities to support individualized coaching for students who are preparing oral presentations will also be equipped and staffed. The new speaking labs will adapt and expand the services of the successful peer Oral Communication Consultants program offered for almost a decade by the Speaking Center at the Center for Teaching and Learning.

Complementing innovations in writing courses, the services of the Stanford Writing Center will expand in 2003/04 to include juniors. Personal attention to students' writing is integral to the success of writing instruction, and the Center will augment the approximately 2500 individual consultations offered to freshmen and sophomores in 2002/03. These VPUE programs focus on the developmental progression of writing, research, and critical inquiry skills for all students.

Through the Undergraduate Research Programs (URP) office, the VPUE funded 32 Departmental Grants and almost 80 Faculty Grants in 2002/03 to support over 500 students assisting faculty in their research; more than 450 additional students received independent research grants, for a total of almost 1,000 undergraduates supported by URP funding. As research assistants, students accompany faculty to the far corners of the world, from Peru to Antarctica, from Norway to Sicily. They work closely, often daily, with their faculty mentors and graduate research groups in fields as diverse as geophysics and archeology in places as varied as laboratories, libraries, music studios, and archives. For students whose research projects are located on campus over the summer, the Summer Research College has expanded its residential capacity to almost 300 spaces with special social and educational programming to round out the experience of a scholarly community.

The amount of support requested in the departmental and faculty proposals to support undergraduate research exceeds the amount available, despite the allocation of additional funds to this purpose. This trend confirms the growing popularity of involving undergraduates in research at earlier stages in their careers. The 2003/04 budget continues to increase support for undergraduate research grants in response to the unmet demand and in anticipation of more independent projects as greater numbers of underclassmen start earlier to acquire the research experience preparatory for creative independent scholarship. The vitality of Stanford's research faculty is reflected in the URP grant programs and is matched by faculty enthusiasm for the contributions undergraduates make to the discovery of knowledge.

The URP office also sponsors the innovative Symposium on Undergraduate Research in Progress (SURP) where over one hundred students present posters and more than twenty students give talks on their research projects. Held for the first time during Reunion Weekend 2002, this lively event was an opportunity for undergraduates to engage in conversations with alumni and fellow students about their work while it is still evolving. SURP illustrates different developmental stages in the process of research, from exploration of a topic to designing a research question and hypothesis, through collecting and evaluating evidence. Honors Symposia held in spring quarter traditionally provide opportunities to showcase the end products of students' research; SURP's focus on the process of research adds an important educational dimension to the experience. SURP is scheduled to continue in 2003/04.

The VPUE sustains a special focus on engaging students in serious critical and scholarly inquiry in their first two years as a foundation for future achievement. Stanford Introductory Seminars are the cornerstone of this endeavor, providing opportunities for over 240 faculty members to reach over 2500 students in areas of common intellectual interest. By the end of the sophomore year, 75% of all students have taken at least one Introductory Seminar. The 2003/04 budget serves freshmen and sophomores at the same levels of participation as in 2002/03 while reducing some allocations for course development and increasing class size modestly in sophomore seminars, from 12 to 14.

General Education is another special focus for the VPUE in the students' first two years. The Introduction to the Humanities (IHUM) program benefits from VPUE's investment in academic technology that expands the availability of humanities "texts" to include materials in visual, musical and dramatic arts. With access to technologically equipped classrooms, discussion sections can analyze and compare multiple stagings of the same Shakespeare scene, for example, thus enriching the depth of critical inquiry into the written text. Online discussions between class meetings allow students and instructors to keep issues moving forward, and give those students who need more time to formulate their responses the chance to engage more fully with others. Budget reductions in IHUM are constrained by Senate-mandated requirements, and center on curriculum development support, reflecting the reduced need for new courses after five years of successful program operation.

Across the VPUE, recent efforts to build a solid administrative infrastructure have resulted in closer collaboration and more effective interrelationships among VPUE units. A rational organization and logical allocation of space in Sweet Hall have enabled the VPUE to provide better service to faculty and students throughout the university. The improvements in communication and management helped contribute to developing a budget reduction plan based on careful assessment of program quality and centrality to the mission of undergraduate education.

Stanford University Libraries and Academic Information Resources (SUL/AIR)

SUL/AIR's Socrates catalog, the comprehensive, campus-wide on-line catalog of Stanford's holdings, has a new design that provides more flexibility to readers seeking information, at less cost to the university. The Serials department has implemented a much-improved on-line tool that provides information about and access to the numerous electronic journals to which Stanford libraries subscribe. A new guide for students in the Program in Writing and Rhetoric (PWR) has been designed and built by the Information Center staff in concert with the PWR staff; it will be widely deployed in 2003/04. The Digital Library Program has much-greater and improved capacity to digitize printed materials for use in teaching and research.

Thanks to two major grants, one from the National Science Foundation and the other from the Andrew W. Mellon Foundation, major progress is underway in the LOCKSS program, which is building, testing, and promulgating a network caching application for local, digital preservation operations at libraries around the Earth. Further developments and refinements of CourseWork will be underway. SUL/AIR staff will carry forward important work on the Stanford Digital Repository, the Stanford Scholarly Communications Service, and mass digitization of various information resources. SUL/AIR's web presence will be renovated in 2003/04 to increase the functions and information provided to readers as well as to make updating its contents easier for staff.

In early 2003/04, Stanford Auxiliary Library III will open in Livermore, about 50 miles from campus. Substantial funding from SUL/AIR's reserve, on the order of $1 million per year for the next two years, will be necessary to activate the building and move targeted collections now in leased storage and on-campus stashes. The Hoover realignment effort continues to identify and transfer books and serials from the Hoover Library facility to SUL/AIR's stacks.

Stanford Linear Accelerator Center

As a National User Facility of the Department of Energy (DOE), SLAC continues to provide world-class experimental facilities to about 3,000 scientists from all over the world in the two main research programs, high energy physics (HEP) and x-ray science. The ultra-high intensity x-ray beams at the Stanford Synchrotron Radiation Laboratory (SSRL) serve many areas of science such as materials sciences, structural biology and analytical chemistry. The powerful synergy of the two SLAC research programs has led to development of unique capabilities for scientific exploitation. One example is the Sub-Picosecond Pulse Source (SPPS) described below.

High Energy Physics

The PEP-II/BaBar B Factory remains the primary focus of the HEP experimental program. The BaBar collaboration (600 physicists from 10 countries) continues to produce physics of exceptional quality at a prodigious rate. In April 2003, the collaboration announced the discovery of a new subatomic particle, named Ds(2317). A nine-month operation of PEP-II/BaBar is planned in 2003/04 and an accelerator upgrade program is under way to double the luminosity in 2004. Upgrades to the BaBar detector are also in progress in order to keep up with the increasing luminosity.

SLAC continues to lead an extensive R&D effort aimed at the eventual construction of a high-energy, high luminosity, electron-positron linear collider for unique experimental investigations at the TeV energy scale. The Next Linear Collider (NLC) R&D program at SLAC is being carried out in close collaboration with Japan's National Laboratory for High Energy Physics, and other DOE National Laboratories (FNAL, LBNL, and LLNL). The key activity in the next year will be a feasibility demonstration of the technology for the radiofrequency power system.

In the particle astrophysics arena, fabrication of the Large Area Telescope (LAT), the primary instrument of the Gamma-Ray Large Area Space Telescope (GLAST) mission, is in progress. DOE and NASA jointly fund the U.S. involvement in the international LAT collaboration led by the Stanford team (SLAC, Physics Department and HEPL). The LAT fabrication schedule is targeted to meet the launch planned in 2006. The new Kavli Institute of Particle Physics and Cosmology is expected to bring new opportunities for SLAC.

The fixed-target program at End Station A (ESA) employs SLAC's unique capability of a high-energy polarized beam. The Moller scattering experiment, which measures the electroweak mixing angle with high precision, will have its final run in summer 2003. As a result of extreme tightness of the budget, the next series of approved fixed target experiments has been cancelled.

X-ray Science at SSRL

SSRL is going through a period of significant transition. The second generation synchrotron light source SPEAR2 ended its operation in March and is being upgraded to a third generation machine. Commissioning of the new SPEAR3 facility will begin in November and operation for users is expected to resume in early 2004. DOE and NIH jointly funded the SPEAR3 project.

A new x-ray beam line utilizing the Sub-Picosecond Pulse Source (SPPS) is being commissioned. In 2004, it will offer the first opportunity in the world to conduct scientific experiments with high brightness, ultra short pulse x-rays. Also, it will be invaluable for the R&D of novel x-ray optics and development of techniques for exploiting coherent x-rays in preparation for the Linac Coherent Light Source (LCLS). An international consortium funded the x-ray facility together with DOE.

Plans are underway for the construction of the world's first x-ray free-electron laser, LCLS, which will utilize the last third of the linear accelerator and the technologies developed at SLAC for linear colliders. The design phase for the facility has been initiated in 2003. The estimated cost of the facility is about $220 million and the current plan is to begin the three-year construction in 2006. SLAC will lead the collaborative effort on the design and construction of LCLS with two other DOE national laboratories (ANL and LLNL). The LCLS will deliver intense femtosecond coherent x-ray beams, which will open new realms of scientific application in the chemical, material and biological sciences.

Section 3
Capital Plan and Budget

This section outlines the 2003/04-2005/06 Capital Plan. The Capital Plan forecasts $837 million in construction and infrastructure projects and programs that are currently underway or planned to begin over the next three years. This section also includes the one year outlook for the 2003/04 Capital Budget, which represents $151.6 million of cash outlays and associated funding of the Capital Plan for the next year.

The Capital Plan is a three-year rolling capital project forecast with budget commitments made to the first year, and then only for projects which have fully identified funding. The plan is set in the context of a longer-term (10 year) Capital Plan for the university. The details of the longer-term plan are less clear than the three-year plan, as we cannot anticipate all of the needs that may emerge over the long-term horizon. In addition, project plans inevitably change over time, particularly over a 10-year period, as some projects prove more feasible than others and as funding realities and academic priorities evolve and change.

This year's Capital Plan has been significantly affected by affordability constraints, debt capacity limits, and challenging fundraising prospects for capital projects. This also was true of last year's plan, but the limitations are even more evident this year. For several projects, a large portion of the funding required is listed either as fundraising goals (Gifts in Hand/Pledged or Gifts to be Raised) or as Resources to be Identified. These fundraising goals have been developed by the Office of Development. The Resources to be Identified are expected to come from sources other than these fundraising targets. This might include additional school or departmental reserves or other funds yet to be identified. In some cases it will be possible to raise all of the funds required for projects, while in others the challenges of the economic environment will result in projects being scaled back, delayed or even cancelled. The rapid pace of facilities development that we experienced in the 1990s has clearly slowed due to our financial constraints.

The university's debt capacity also has decreased in this economic climate, and so our very limited supply of available debt has been carefully allocated throughout the Capital Plan. The highest priority use for debt in the Capital Plan has been in support of the following areas:

- Life safety and code compliance issues, particularly the completion of the seismic renovation program,
- Ongoing university operations such as infrastructure needs of the physical plant,
- New housing required to meet community needs and requirements under the General Use Permit (GUP), and
- Highest priority university-wide academic initiatives.

The following sections present the details of this year's Capital Plan.

THE CAPITAL PLAN, 2003/04 – 2005/06

Stanford's central campus, including the Medical School but excluding the hospitals, has 664 major buildings providing over 14 million gross square feet (gsf) of physical space. The physical plant has an historical cost of $3.66 billion and an estimated replacement cost of approximately $5 billion. The campus is a treasured resource that supports and sustains the academic life of the university.

The Capital Plan is a forecast of Stanford's annual programs designed to restore, maintain and improve campus facilities for teaching, research, housing and related activities. Stanford's needs for new and improved teaching and research facilities emerge every year and are planned in a coordinated manner across the university. The Capital Plan carefully balances

SUMMARY OF THREE YEAR CAPITAL PLAN 2003/04-2005/06
[IN MILLIONS OF DOLLARS]

			Project Funding Source						Annual Continuing Costs		Project Expenditures Anticipated Cash Outlay				
				Gifts		University Debt									
	Estimated Project Cost	Capital Budget 2003/04	Current Funds[1]	Gifts in Hand or Pledged	Gifts To Be Raised	Service Center/ Auxiliary Debt	Academic Debt	Resources To Be Identified[2]	Debt Service	Operations Maintenance & Utilities	Through 2002/03	2003/04	2004/05	2005/06	Thereafter
Projects in Design & Construction	173.3	60.8	31.5	40.1	69.3		24.4	8.0	1.8	1.7	28.9	60.8	83.7		
Forecasted Projects	567.0	54.6	40.0	43.8	377.8		88.2	17.2	7.5	10.7	0.6	54.6	94.0	147.1	270.7
Total Construction Plan	740.3	115.4	71.5	83.9	447.1		112.6	25.2	9.3	12.5	29.5	115.4	177.6	147.1	270.7
Infrastructure Programs	96.8	36.2	50.3			35.9	10.6		4.7	0.3		36.2	31.6	29.0	
Total Three-Year Capital Plan 2003/04-2005/06 before Internal Charges	837.0	151.6	121.8	83.9	447.1	35.9	123.2	25.2	14.0	12.8	29.5	151.6	209.2	176.1	270.7
Less: Stanford Infrastructure Surcharge[3]	(32.6)	(5.1)	(32.6)												
GUP Entitlement Fee[3]	(47.2)	(7.8)	(47.2)												
Total Three-Year Capital Plan 2003/04-2005/06 after Internal Charges	757.3	138.7	42.1	83.9	447.1	35.9	123.2	25.2	14.0	12.8	29.5	151.6	209.2	176.1	270.7

[1] Includes funds from university and school reserves, GUP Mitigation assessments and the Stanford Infrastructure Program.

[2] Anticipated funding for this category is through a combination of gift raising and school, department and university reserves.

[3] Stanford Infrastructure and GUP Entitlement Fee surcharges are included in the Estimated Project Cost of the Construction Plan. These surcharges are the funding mechanism for GUP Mitigation Costs and the Stanford Infrastructure Program (see Infrastructure Projects and Programs table). As a result, the consolidated Construction and Infrastructure Plans include these surcharges twice; as a cost to the construction project and as a cost to the infrastructure programs. As a result, the surcharges included in the construction costs are eliminated on the Summary of Three Year Capital Plan table to avoid overstatement.

institutional needs for new and renovated facilities with our very real and increasingly challenging constraints of limited development entitlements, available funding, and affordability.

The 2003/04-2005/06 Capital Plan, which includes 25 major construction projects in various stages of development and numerous infrastructure projects and programs, totals $837 million. This plan is significantly smaller in cost and scope than last year's Capital Plan, which totaled $1.067 billion. The chart below compares the last two years, showing that the 2003/04-2005/06 Capital Plan is 22% less than the 2002/03-2004/05 Capital Plan, reflecting the effects of our funding constraints and affordability issues.

Project Category [in millions of dollars]	2002/03-2004/05 Capital Plan	2003/04-2005/06 Capital Plan
Design/Construction	319.9	173.3
Forecasted	531.7	567.0
Infrastructure	216.0	96.8
Total	1,067.6	837.0

As shown in the above table, the projects in Design and Construction have decreased $147 million. This is largely the result of the substantial completion in 2002/03 of both the Clark Center ($146.6 million) and Lokey Laboratory ($62.3 million) and the decline in the number of projects in the Design and Construction phase, from eleven projects in prior year's Capital Plan to seven in this year's Capital Plan.

The Forecasted projects shown in the above table have increased by $35 million due to the addition of several new projects, including the New Biology Building ($72.3 million), Art to the Old Anatomy Building ($38 million), and the School of Engineering Center ($126.4 million). This was offset somewhat by project deferrals, reduction in scope (from over $3 million to under $3 million, and thus not included in the Capital Plan) of several projects, and projects moving from the Forecasted phase to Design and Construction. Projects deferred include the School of Medicine Research Facility Expansion ($7.8 million), Building 630 Seismic Renovation ($6.4 million), Crothers and Crothers Memorial (CIP) ($15.2 million), Herrin Hall Renovation ($7.8 million), and Row House Renovation (CIP-Storey, Columbae) ($5.1 million). Projects with scope reductions from budgets over $3 million to budgets under $3 million include Mudd Teaching & Laboratory Renovation (decreased from $9.2 million to $2.5 million) and Hopkins Agassiz Seismic (decreased from $4.6 million to $2.8 million). Four projects moved from Forecasted to Design and Construction: Law School Student Housing, Maples Pavilion Renovation, Lucas Center Expansion, and the Building 500/510 Renovation.

Infrastructure projects have declined by $120 million due to the substantial completion of the software applications and system conversion programs, the Pasteur Parking Structure, the Marguerite bus acquisition and the ADA barrier removal and emergency generator programs. The Family Farm Road & Sediment Control project has been deferred.

A summary table of the three-year Capital Plan and expenditures by fiscal year is displayed in the table on the facing page. In addition, a detailed list of these projects is provided in the tables at the end of this section. These tables list the projects that require approval by the Board of Trustees – that is, those projects $3 million and above in cost. Projects under $3 million do not require a Board process and are not listed.

The Stanford Hospitals and Clinics (SHC) and Lucile Packard Children's Hospital (LPCH) and Stanford Management Company (SMC) are not included in the Capital Plan tables due to their independent organizational structures. In order to present a comprehensive view of all planned construction on Stanford land, they are mentioned in the text.

The projects in the Capital Plan are divided into three parts.

- Design & Construction – The seven projects in Design and Construction represent $173.3 million of the plan. Some of these projects, such as the Lucas Center Expansion, are scheduled for Board of Trustees construction approval in June of 2003. Other projects, such as the Knoll renovation and the Kavli Particle Astrophysics and Cosmology Institute, are in the design phase. Construction on these projects, especially the Law School Student Housing, is contingent on securing funding.
- Forecasted Construction Projects – Forecasted projects include our proposed projects, listed by anticipated Board of Trustee concept approval date and by project size. Only those projects with an

anticipated concept approval in 2003/04 and fully identified funding are considered budget commitments in this rolling three-year plan. These include 13 projects totaling $352.4 million. Of these projects, $91.1 million in funding is identified ($2.4 million in current funds, $44.9 million in debt, and $43.8 million in gifts in hand or pledged.) Of the remaining funds, $258.4 million needs to be fundraised and $3 million needs to be identified. The second and third years of the rolling three-year plan include five significant capital projects that are planned for Board of Trustee review in 2004/05 and 2005/06. These projects total $214.6 million of estimated costs, 62% of which need to be fundraised or identified. Construction of many of these projects will be completed in subsequent years.

- INFRASTRUCTURE PROJECTS & PROGRAMS – These projects and programs include a new parking structure, as well as a number of utility systems, information technology and communication systems, storm drain improvements, transportation programs, GUP mitigation, and other infrastructure projects. These projects and programs comprise the remaining $96.8 million of the Capital Plan.

In the following section we address the Capital Plan from several different perspectives: its funding sources; the use of funds by program category (e.g., academic/research, housing); the use of funds by type of project (e.g., new construction, renovation); other Stanford projects; and the Capital Plan's resource constraints.

CAPITAL PLAN FUNDING SOURCES

Stanford's Capital Plan relies on several funding sources: current funds, gifts, service center/auxiliary debt, and academic debt. In a number of cases not all of the funding sources are known; these projects include a portion of their costs in a Resources to be Identified column. Although it is our expectation that some of these resources will in fact be identified, it is very possible in this economic climate that they may not and that some projects will have to be cancelled, delayed or scaled back in scope.

Current Funds

The three-year forecasted plan anticipates that $121.8 million, or 15% of the Capital Plan, will be funded through Current Funds. These include school, department and university reserves as well as assessments from GUP Entitlement Fees and the Stanford Infrastructure Program (SIP).

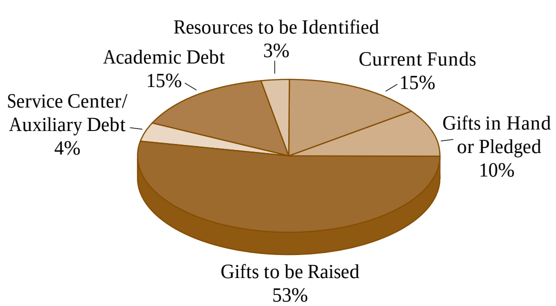
The GUP Entitlement Fee is an assessment levied on capital projects that increase the school's/department's current core campus space allocation. These fees provide funding for conditions made under the 2000 General Use Permit and the Community Plan. SIP assessments are levied on all capital projects and fund parking, transportation, and campus planning programs.

Gifts

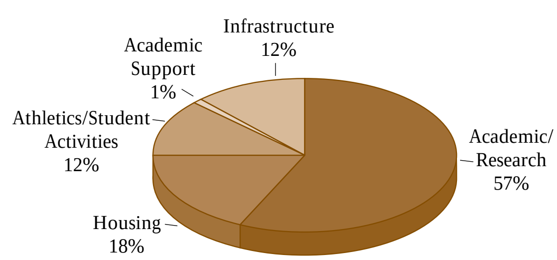
The three-year Capital Plan includes gifts of $531 million representing 63% of the Capital Plan. These gifts are a combination of gifts in hand or pledged ($83.9

THE CAPITAL PLAN 2003/04 – 2005/06: $837 MILLION[1]

SOURCES OF FUNDS



USES OF FUNDS BY ACADEMIC CATEGORY



[1] Amount includes Stanford Infrastructure Surcharge and GUP Entitlement Fees charged to projects.

million or 10%), and gifts to be raised ($447.1 million or 53%.) The Office of Development has reviewed the gift projects listed in the plan, and assessed that the gift targets we have listed are feasible. However, given historical levels of annual giving for buildings, it is likely that the gift timetable will be stretched out.

Debt

Debt funding reliance dropped 50% from the 2002/03-2004/05 Capital Plan, although it remains one of the key financing sources for the Capital Plan. Approximately 19% of projected expenditures in the Plan will be funded by $159.1 million of debt. Of this amount, $35.9 million is auxiliary and service center debt, principally Residential and Dining Enterprises and the Capital Utilities Program. Another $123.2 million is academic debt.

Resources to be Identified

As mentioned above, given the constraints of the economic climate at this time, not all of the funding sources are known for all projects in the Capital Plan. The Resources to be Identified category amounts to $25.2 million in the plan, or 3% of the total funding required. While it is possible that funds will be identified within this category, it is not clear at this time that this funding need will ever be met.

USES OF FUNDS BY PROGRAM CATEGORY

The Capital Plan is divided into the following program categories: Academic/Research, Housing, Athletics/Student Activities, Academic Support, and Infrastructure.

The chart on page 42 shows these uses by academic category.

Academic/Research

Academic/Research projects directly support Stanford's teaching and research mission, and include buildings that have offices, classrooms and laboratories used by faculty, students and staff. The 15 Academic/Research projects in the plan amount to $475.6 million, or 57% of the total plan.

Projects Completed in 2002/03:

Projects described in last year's Capital Plan that will be substantially complete in 2002/03 included the following: Clark Center, Lokey Laboratory, and Skilling Classroom Renovation.

Projects in Design and Construction:

The following five projects are currently in design and construction within the current three-year plan:

- The Lucas Center Expansion will extend the existing MSLS/Lucas Building underground to accommodate innovative research with a new high-field magnet and Molecular Imaging Center. The project involves an addition of 28,000 gross square feet.
- The Kavli Institute for Particle Astrophysics and Cosmology, formerly listed as the Chen Institute, is a 25,000 gross square foot state-of-the-art research facility being developed at SLAC.
- The Knoll Seismic Renovation is planned to upgrade this historic building (19,000 gsf) to meet current seismic requirements, address deferred maintenance and ADA requirements, and meet program needs for music performance and studio space in the Humanities and Sciences Music department.
- The renovation of Building 500 will create a home for the Archaeology Center, as well as upgrading the building to current seismic, MEP, ADA, and life safety codes. Building 500 is one of the remaining unreinforced masonry (URM) buildings to be renovated on campus. In addition, a second floor with an additional 5,890 gsf will be created within the building.
- A new building for CSLI (the Center for the Study of Language and Information)-Media X and EPGY (the Education Program for Gifted Youth) is being planned adjacent to Ventura and Cordura Halls. The building (10,000 gsf) will house faculty, visitors, postdoctoral students, students, and staff from both of these independent research center programs.

Forecasted Construction Projects:

Additional Academic/Research projects planned for Trustee concept approval in the next three years include 10 new and renovated buildings. Projects in Medicine include a new School of Medicine Information and Learning Environment (known as SMILE) (220,000 gsf requested) and seismic upgrades of the Lane, Edwards and Alway Buildings (262,000 gsf). In the sciences and engineering, plans include a new School of Engineering Center (206,978 gsf requested), a new Biology building (120,000 gsf requested) and a renovation of the HEPL End Station (37,062 gsf) for additional laboratory space.

Other projects include an office space renovation in the Lou Henry Hoover Building for the Hoover Institution (20,000 gsf), a renovation and upgrade of the former

Career Planning and Placement Center (CPPC) for the School of Education (8,328 gsf), and a renovation and upgrade of the Old Anatomy building for the Art department (gsf to be determined).

Housing

Housing projects represent $151.6 million, or 18% of total Capital Plan expenditures. These projects reflect the efforts of the university to provide more affordable housing for graduate students and to upgrade existing facilities for both graduate and undergraduate students. The conditions of the General Use Permit also require the university to build new housing as academic space is built. The Capital Improvement Program (CIP) is intended to address deferred maintenance, seismic upgrades, code compliance, and major programmatic improvements in all areas of the student housing system. Several CIP projects are anticipated in the coming years, particularly related to improvements and upgrades to the Row Houses. Most of these projects fall in the under $3 million range.

Projects Completed in 2002/03:

Last year's Capital Plan described the following projects, which will be substantially completed in 2002/03: Escondido Village Graduate Studios 5 & 6 (326 new studio units), User Lodging Facility at SLAC, Branner Hall, and the Buck Estate renovation.

Projects in Design and Construction:

- The Law School Student Housing project is planned to provide up to 400 units of housing for law students (total gsf to be determined), located adjacent to the Law School academic campus. This housing facility is key to the integrated learning environment of the school, which is a hallmark of the school's identity.

Forecasted Construction Projects:

Future housing projects include a Manzanita III Hall and Dining project, which will add 125 new undergraduate beds in addition to a new dining facility, and a Graduate School of Business housing addition of up to 280 beds.

Athletics/Student Activities

The Athletics/Student Activities category covers those facilities that support campus athletics and recreation functions, and other non-academic resources/services for students. Projects supporting Athletics/Student Activities represent $103.9 million, or 12% of total Capital Plan expenditures.

Projects Completed in 2002/03:

Last year's Capital Plan described the Redwood City Boathouse Facility, which was substantially completed in 2002/03.

Projects in Design and Construction:

The following project is in Design and Construction:

- The Maples Pavilion Renovation will expand the existing facility by 18,153 new gross square feet and renovate the existing space in order to better meet the needs of the sports teams that use the facility as well as the fans that attend sports events. The building's systems, seismic, and code needs will be addressed as well.

Forecasted Construction Projects:

Additional projects planned in the near future for Athletics include the new Arrillaga Family Recreation Center and a renovation of the Golf Clubhouse and related facilities. In the student activities area, the renovation of the Old Union, Clubhouse, and Nitery (90,486 gsf) is planned, which will create additional student activity and support space. In addition, plans are underway for a new Graduate Community Center (12,000 gsf) to be located in Escondido Village.

Academic Support

The Academic Support category consists of facilities that help support the academic mission of the university. This category generally includes administrative space, as well as facilities such as libraries and museums. Academic Support projects total $9.1 million, or 1% of the plan.

Projects Completed in 2002/03:

Last year's Capital Plan described the Off-Site Library Collections project (SAL III), which will be substantially complete by the end of 2002/03.

Projects in Design and Construction:

There are no Academic Support facility projects currently in design and construction.

Forecasted Construction Projects:

Forecasted Academic Support projects in the Capital Plan include a renovation of the Bakewell Building to house Admissions, Financial Aid, and the Visitor Information Center (17,000 gsf), and a Public Safety Annex (gsf to be determined). The Bakewell project was originally scheduled for 2003/04, but has been deferred to 2004/05 due to affordability and debt constraints.

Infrastructure

Stanford's ongoing efforts to renew its infrastructure are reflected in a $96.8 million budget (12%) in the Capital Plan. The majority of the infrastructure programs are comprised of the Capital Utility Programs (CUP) and Information Technology & Communication Systems. The remaining programs include Parking, GUP Mitigation, and other infrastructure projects and programs, as described below. Note that the GUP Mitigation and Stanford Infrastructure Programs are funded through construction project surcharges.

Parking

Approximately $7.2 million will be spent on the new East Campus Parking Structure, which will provide approximately 400 parking spaces to replace those displaced by the Law School Housing project.

Parking is generally funded through a combination of funds from the Stanford Infrastructure Program and GUP Entitlement Fees. SIP provides funding for parking that has been *displaced* and the GUP Entitlement Fee funds parking that *increases* the net number of parking spaces on campus. The maximum net increase in parking allowed is 2,300 spaces under the 2000 GUP, most of which is attributable to planned increases in on-campus student housing.

Capital Utility Program

The three-year plan allocates a total of $30 million for CUP projects. These projects aim to improve and enhance electrical, steam, water, chilled water, and wastewater utility systems. The program is driven by three conditions: system expansion, system replacement, and system controls.

Information Technology & Communication Systems

A total of $37.3 million has been allocated for information systems applications, infrastructure development, and upgrades to networks and communication systems.

Compliance and Other

A total of $5.7 million has been allocated toward the ongoing implementation of the East and West Campus Storm Drain Improvements program.

GUP Mitigation Costs

The three-year Capital Plan addresses capital expenditures for GUP mitigation. These planned expenditures represent the conditions of approval under the General Use Permit and Community Plan approved by Santa Clara County in December 2000. Expenditures to meet these conditions total $9.4 million and relate to Trail Easements, Water Conservation, and Transportation Demand Management Programs. Funding for these expenditures will be generated by an internal expansion fee. This fee will be levied on capital projects that increase the school's/department's current core campus space allocation.

Stanford Infrastructure Program

SIP consists of campus planning and transportation projects and programs proposed and developed for the improvement and general support of the university's academic community and physical plant. SIP expenditures are expected to total $7.2 million over the three-year period. Of this total, $1.2 million is allocated to Parking and Transportation Services projects. These projects include the construction of small increments of additional parking, campus transit improvements, parking lot infrastructure improvements, and enhancements to support bicycle use. The remaining $6 million represents campus landscaping and site improvement projects, including bicycle and pedestrian paths, lighting, outdoor art, and habitat mitigation.

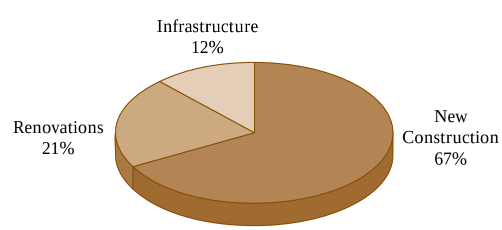
Uses Of Funds By Project Type

New Construction

Of the 25 major construction projects, the three-year forecasted plan anticipates 12 new buildings. These projects account for $563.5 million or 67% of the three-year plan, ranging in size from $3.1 million to $140.5 million.

These buildings will support academic and research programs, increase student housing, and athletic/student facilities.

2003/04 – 2005/06
Uses of Funds by Project Type: $837 Million[1]



[1]Amount includes Stanford Infrastructure Surcharge and GUP Entitlement Fees charged to projects.

Renovations

As is illustrated in the chart on the facing page, 13 Renovation projects represent $176.7 million, or 21% of the total project costs over the three-year period. Three of the renovation projects represent the final phase of the unreinforced masonry (URM) building seismic upgrades. The URM program has been a significant part of the Capital Plan since the 1989 Loma Prieta earthquake. These URM renovations include Building 500/510, Bakewell, and CPPC. The remaining projects include major renovations of some of Stanford's older buildings, including the Old Union.

Infrastructure

Infrastructure projects and programs totaling $96.8 million comprise the remaining 12% of the Capital Plan.

OTHER STANFORD ENTITIES

In 2003/04, as has been true for the last two years, the Capital Planning process has included all Stanford entities. Due to their independent organizational structures and specific Board delegations, projects managed by Stanford Management Company and Stanford Hospital & Clinics have not been included in this Capital Plan/Budget. A brief description of these projects follows:

Stanford Management Company

FACULTY AND STAFF HOUSING – The Stanford Management Company continues to plan both rental and for sale housing units for faculty and staff of the university over the next ten years. This effort addresses a university priority to recruit and retain faculty and staff.

STANFORD RESEARCH PARK – Due to current market conditions and the economic environment that we anticipate over the next few years, redevelopment in the Stanford Research Park is unlikely. When this economic situation changes, such redevelopment could be considered.

Stanford Hospital & Clinics

SHC is constructing the Center for Cancer Treatment & Prevention/Ambulatory Care Pavilion, a 218,000 gsf project that is anticipated to be complete by December 2003. In addition, the Lucile Packard Children's Hospital is planning interior renovation projects to support current program needs. The Stanford Medical School, SHC, and the Lucile Packard Children's Hospital also are engaged in a long-range planning effort that will outline and coordinate the space and program needs of the three entities over time.

CAPITAL PLAN CONSTRAINTS

Affordability

The additional internal debt service costs expected at the completion of all projects commencing in the three-year forecasted plan (completion dates will range from 2003/04-2008/09) total $14 million; $8.3 million of which will be paid for by unrestricted funds, and $5.7 million will be serviced by auxiliary or service center operations.

The additional operations, maintenance and utilities (O&M) costs expected at the completion of all projects commencing in the three-year plan total $12.8 million. Of this amount, $3.3 million per year will be covered by auxiliary and service center operations. The remaining $9.5 million per year will be paid by unrestricted funds.

General funds of the university pay a portion of the debt service on capital projects, as well as the O&M costs. These capital-related costs compete directly with other academic program initiatives. Our current forecast for the general funds portion of the Consolidated Budget for Operations includes these projected costs.

Debt Capacity

In March 2003, the university issued $150 million of 30-year tax-exempt, commercial paper notes to finance capital projects. As of March 31, 2003 $43 million has been drawn down under this facility. In conjunction with these debt offerings, Standard and Poors, Fitch Ratings and Moody's confirmed the university's AAA/Aaa bond ratings. Total university debt outstanding is projected to be $1.3 billion at the end of 2002/03.

Approximately $213 million of capacity from existing debt programs is currently available to finance capital projects, including $12 million of unexpended bond proceeds, $93 million of taxable commercial paper capacity and $108 million of tax-exempt commercial paper capacity. An additional $43 million is expected to become available through fiscal year-end 2003/04 from internal amortization payments on previous debt-funded projects.

We will require a total of $317.2 million of debt to finance:

- $163.7 million to complete projects currently committed or under construction,

- $93.5 million for forecasted projects commencing in 2003/04, and
- $60 million for the faculty mortgage portfolio through fiscal year-end 2003/04. A surge of mortgage refinancings has slowed growth in the mortgage portfolio to $1.7 million year to date, down from a peak of $45 million in Fiscal 2002. Future growth in the portfolio is difficult to predict in the current economic environment since the key drivers are local real estate prices and mortgage interest rates.

Funds available from existing debt programs will support capital expenditures through 2003/04. We will need to raise an incremental $62 million in fiscal 2004/2005 to complete these projects. Projects identified in the three-year Capital Plan (including projects under $3 million, financed equipment, and faculty mortgages) commencing after 2003/04 will require an additional $205.6 million in debt. It is important to note that these projects are not currently committed and will be evaluated in the context of debt capacity and GUP limitations. On a pro-forma basis we expect to be in compliance with the university's debt policy at fiscal year-end 2002/03.

Entitlements

The Stanford campus is comprised of 8,180 acres, which fall within six jurisdictions. Of this total, 4,017 acres are within unincorporated Santa Clara County, including most of the central campus.

In December 2000, Santa Clara County approved a General Use Permit that allows Stanford to construct up to 2,035,000 additional gross square feet of academic-related buildings on the core campus. The GUP also allows for the construction of up to 2,000 new student-housing units and over 1,000 units of housing for post-doctoral fellows, medical residents, faculty, and staff.

Conditions of approval include:

- The creation of an academic growth boundary to limit the buildable area to the core campus.
- The stipulation that a sustainable development study be approved before new construction is developed beyond one million gross square feet.
- For each 500,000 gsf of new academic building, a total of 605 units of housing be constructed.

Given the stringent requirements imposed by the new GUP and the increasingly difficult entitlement environment, Stanford carefully manages the allocation of new growth. We originally projected that our GUP square footage allocation would be expended over 15 years – which would be at a rate of approximately 135,000 gsf per year. Funding constraints have slowed this GUP square footage projection; as of the end of 2002/03, we have committed only 51,000 gsf of GUP square footage. The three-year forecasted plan shows a projection of over 541,000 GUP square feet by the end of 2005/06; this is a forecast that could change over time.

THE CAPITAL BUDGET, 2003/04

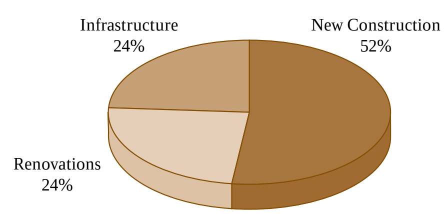
The 2003/04 Capital Budget represents capital expenditures for the upcoming fiscal year in the amount of $151.6 million. Most of these expenditures reflect only a portion of the total costs of the capital projects listed, as most projects have a duration exceeding one year.

Sources And Uses

A breakdown of the Capital Budget's sources and uses of funds is presented in the following charts. Debt and Gifts represent 35% and 33% of the budget, respectively. Current funds (i.e., existing university reserves and fund balances) represent 31% with the remaining 1% to be identified.

Of the total $151.6 million Capital Budget, 43% will be spent on Academic/Research projects. Infrastructure, Housing, and Athletics/Student Activities projects will represent 24%, 16% and 15% of the total budget respectively. Academic Support projects represent the remaining 2% of the total budget.

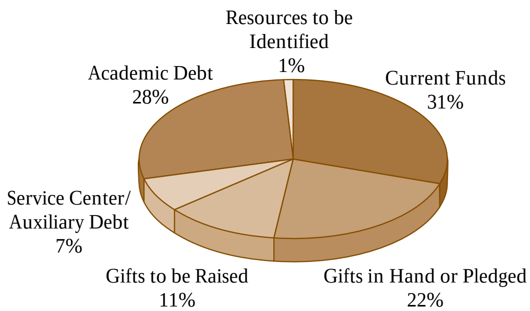
2003/04
Uses of Funds by Project Type: $151.6 Million[1]



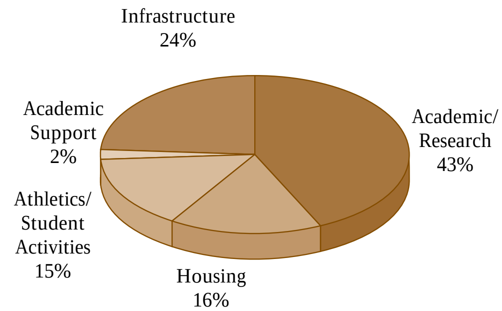
[1] Amount includes Stanford Infrastructure Surcharge and GUP Entitlement Fees charged to projects.

THE CAPITAL BUDGET 2003/04: $151.6 MILLION[1]

SOURCES OF FUNDS



USES OF FUNDS BY ACADEMIC CATEGORY



[1] Amount includes Stanford Infrastructure Surcharge and GUP Entitlement Fees charged to projects.

An estimated 52% of the budget will be spent on new construction projects. The majority of these expenditures are to fund the Law Student Housing, Lucas Center Expansion, and the School of Medicine Information and Learning Environment (SMILE) buildings. Another 24% will be spent on renovation projects such as the Maples Pavilion Renovation. The remaining 24% will be spent on Infrastructure projects and programs, including the East Campus Parking Structure. Other infrastructure initiatives in 2003/04 include Information Technology and CUP programs.

CAPITAL BUDGET IMPACT ON 2003/04 OPERATIONS

The 2003/04 Projected Consolidated Budget for Operations includes incremental debt service and O&M expenses for projects completing in 2003/04. Additionally, this budget includes an incremental increase in debt and O&M expenses for projects completing in 2002/03 that were operational for less than 12 months in 2002/03.

As noted in Section 1, Stanford borrows funds from capital markets and lends the proceeds to fund capital projects and programs. These capital projects and programs repay the funds plus interest over the remaining life of the project. These payments are known as internal debt service. Stanford is responsible for accumulating these funds for repayment to the external lender. The interest rate for internal debt service is calculated annually as a blended interest rate of all interest expense and bond issuance costs. The projected blended rate for 2003/04 is 5.65%.

The projected incremental internal debt service funded by unrestricted funds in 2003/04 is $6.4 million. This amount represents the additional debt service on eight capital projects and programs, the most significant of which are the Information Systems Applications, Lokey Laboratory, and the Off-Site Library Collections project (SAL III). This additional debt service brings the total annual internal debt service borne by the unrestricted university budget to $36.9 million, equal to approximately 4.36% of unrestricted revenues.

Total internal debt service, including auxiliaries and services centers, will increase from $86.3 million to $100 million, an increment of $13.7 million.

Additional O&M costs of approximately $5.5 million will be funded by general funds and the Medical School. A significant portion of this amount is due to the scheduled completion of the Pasteur Parking Structure in March 2003, the Clark Center and the Lokey Laboratory in summer 2003, and the remaining portion of Off-site Library Collections (SAL III) in fall 2003. Branner Residence Hall, Kitchen, and Servery will add approximately $300,000 and will be funded through auxiliary operations.

CAPITAL PLAN PROJECT DETAIL

Tables showing the details for projects in Design and Construction, Forecasted Projects, and Infrastructure Projects and Programs follow on the next three pages.

2003/04-2005/06 Capital Plan
Projects in Design & Construction

[in millions of dollars]

					Project Funding Source						Annual Continuing Costs	
						Gifts		University Debt				
	School/ Department	Project Schedule	Estimated Project Cost	Capital Budget 2003/04	Current Funds[1]	Gifts in Hand or Pledged	Gifts To Be Raised	Service Center/ Auxiliary Debt	Academic Debt	Resources To Be Identified[2]	Debt Service	Operations Maintenance & Utilities
Law School Student Housing (400 units)	SLS	2003-05	90.1	22.5	4.2		64.3		21.6		1.5	1.0
Maples Pavilion Renovation	DAPER	2003-05	30.0	9.0		29.0	1.0					0.3
Lucas Center Expansion	SOM	2003-04	22.8	14.8	22.8							0.2
Kavli Institute for Particle Astrophysics & Cosmology	SLAC	2003-05	10.5	3.2		7.5	3.0					0.1
Knoll Seismic Renovation	H&S	2003-05	9.7	3.4	4.5					5.2		
Building 500/510 Renovation	H&S	2003-04	5.6	4.2					2.8	2.8	0.2	0.1
CSLI-Media X and EPGY Building	DOR	2003-04	4.6	3.7		3.6	1.0					0.1
Subtotal – Projects in Design & Construction[3]			173.3	60.8	31.5	40.1	69.3		24.4	8.0	1.8	1.7

[1] Includes funds from university and school reserves, GUP Mitigation assessments, and the Stanford Infrastructure Program.

[2] Anticipated funding for this category is through a combination of gift raising and school, department, and university reserves.

[3] Stanford Infrastructure and GUP Entitlement Fee surcharges are included in the Estimated Project Cost of the Construction Plan. These surcharges are the funding mechanism for GUP Mitigation Costs and the Stanford Infrastructure Program (see Infrastructure Projects and Programs table). As a result, the consolidated Construction and Infrastructure Plans include these surcharges twice; as a cost to the construction project and as a cost to the infrastructure programs. As a result, the surcharges included in the construction costs are eliminated on the Summary of Three Year Capital Plan table to avoid overstatement.

2003/04-2005/06 CAPITAL PLAN

FORECASTED CONSTRUCTION PROJECTS

[IN MILLIONS OF DOLLARS]

					Project Funding Source						Annual Continuing Costs	
						Gifts		University Debt				
	School/ Department	Project Schedule	Estimated Project Cost	Capital Budget 2003/04	Current Funds[1]	Gifts in Hand or Pledged	Gifts To Be Raised	Service Center/ Auxiliary Debt	Academic Debt	Resources To Be Identified[2]	Debt Service	Operations Maintenance & Utilities
School of Medicine Information and Learning Environment	SOM	2004-07	140.5	14.1			133.0		7.5		0.6	4.8
New Biology Building	H&S	2004-07	72.3	7.2			72.3					0.7
Art to the Old Anatomy Building	H&S	2004-06	38.0	7.6		20.0	15.0			3.0		0.8
Arrillaga Family Recreation Center	DAPER	2003-05	27.5	9.1		20.5	7.0					0.4
HEPL End Station Build Out	DOR	2004-06	20.0	4.0					20.0		1.8	0.4
Manzanita III Hall & Dining (125 units)	R&DE	2004-06	18.5	1.9			18.5					0.3
Golf Club House, Pro Shop, Cart Barn Renovation	DAPER	2003-05	8.0	2.7		1.0	7.0					0.1
Edwards Structural/Seismic Upgrades	SOM	2004-05	6.8	2.4					6.8		0.6	
Bakewell Seismic Renovation	PRES/PROV	2004-05	6.0	2.1					6.0		0.5	0.1
Graduate Student Community Center	VPSA	2003-05	4.2	1.5			3.2		1.0		0.1	
Career Planning and Placement Center Renovation	SUSE	2004-06	4.0	0.8	1.6		2.4					
Lane Structural/Seismic Upgrades	SOM	2004-06	3.6	0.7					3.6		0.3	
Public Safety Annex	PRES/PROV	2004-06	3.1	0.6	0.8	2.3						0.2
2003/04 Subtotal			352.4	54.6	2.4	43.8	258.4		44.9	3.0	3.8	7.8
Graduate School of Business Housing Expansion (280 units)	GSB	2005-07	43.0				43.0					1.2
Old Union/Clubhouse/Building 590 Renovation	VPSA	2005-07	34.2						20.0	14.2	1.8	
Lou Henry Hoover 1st Floor & Basement Renovation	Hoover	2005-07	7.6		7.6							
Alway Structural/Seismic Upgrades	SOM	2005-07	3.4						3.4		0.3	
2004/05 Subtotal			88.2		7.6		43.0		23.4	14.2	2.1	1.2
School of Engineering Center	SOE	2006-09	126.4		30.0		76.4		20.0		1.6	1.8
2005/06 Subtotal			126.4		30.0		76.4		20.0		1.6	1.8
Subtotal – Forecasted Projects			567.0	54.6	40.0	43.8	377.8		88.2	17.2	7.5	10.7
Subtotal – Construction Plan[3]			740.3	115.4	71.5	83.9	447.1		112.6	25.2	9.3	12.5

[1] Includes funds from university and school reserves, GUP Mitigation assessments, and the Stanford Infrastructure Program.

[2] Anticipated funding for this category is through a combination of gift raising and school, department, and university reserves.

[3] Stanford Infrastructure and GUP Entitlement Fee surcharges are included in the Estimated Project Cost of the Construction Plan. These surcharges are the funding mechanism for GUP Mitigation Costs and the Stanford Infrastructure Program (see Infrastructure Projects and Programs table). As a result, the consolidated Construction and Infrastructure Plans include these surcharges twice; as a cost to the construction project and as a cost to the infrastructure programs. As a result, the surcharges included in the construction costs are eliminated on the Summary of Three Year Capital Plan table to avoid overstatement.

2003/04-2005/06 Capital Plan
Infrastructure Projects & Programs
[in millions of dollars]

					Project Funding Source						Annual Continuing Costs	
						Gifts		University Debt				
	School/ Department	Project Schedule	Estimated Project Cost	Capital Budget 2003/04	Current Funds[1]	Gifts in Hand or Pledged	Gifts To Be Raised	Service Center/ Auxiliary Debt	Academic Debt	Resources To Be Identified[2]	Debt Service	Operations Maintenance & Utilities
Parking Structures												
East Campus Parking Structure (400 spaces)	FAC OPS	2004-06	7.2	3.6	7.2							0.1
Subtotal – Parking Structures			7.2	3.6	7.2							0.1
Capital Utilities Program (CUP)												
System Expansion	FAC OPS	2004-06	16.2	4.5				16.2			1.6	
System Replacement	FAC OPS	2004-06	11.6	4.8				11.6			1.2	
Controls	FAC OPS	2004-06	2.2	0.7				2.2			0.2	
Subtotal – CUP			30.0	10.0				30.0			3.0	
Information Technology & Communications Systems												
Applications & Infrastructure	ITSS	2004-06	26.5	12.7	26.5							
Communications and Networking Systems	ITSS	2004-06	10.8	2.6				5.9	4.9		1.1	
Subtotal – Systems			37.3	15.3	26.5			5.9	4.9		1.1	
Compliance and Other												
East & West Campus Storm Drains	FAC OPS	2004-06	5.7	2.5					5.7		0.6	
Subtotal – Compliance and Other			5.7	2.5					5.7		0.6	
GUP Mitigation Costs												
Trail Easements	FAC OPS	2004-06	6.0	2.0	6.0							
Water Conservation System	FAC OPS	2004-06	1.6	0.2	1.6							
Transportation Demand Management	FAC OPS	2004-06	1.8	0.2	1.8							0.1
Subtotal – GUP Mitigation			9.4	2.4	9.4							0.1
Stanford Infrastructure Program (SIP)												
Parking and Transportation Services[3]	FAC OPS	2004-06	1.2	0.4	1.2							
Campus Planning Systems	UA/PO	2004-06	6.0	2.0	6.0							0.1
Subtotal – SIP			7.2	2.4	7.2							0.1
Subtotal – Infrastructure Projects & Programs			96.8	36.2	50.3			35.9	10.6		4.7	0.3

[1] Includes funds from University and School reserves, GUP Mitigation assessments and, the Stanford Infrastructure Program.
[2] Anticipated funding for this category is through a combination of gift raising and school, department, and University reserves.
[3] Parking Structures are listed separately.

Appendix A

Consolidated Budgets for Academic Units and Auxiliaries

Schedules are shown for:

ACADEMIC UNITS

- Graduate School of Business
- School of Earth Sciences
- School of Education
- School of Engineering
- Hoover Institution
- School of Humanities & Sciences
- School of Law
- School of Medicine
- Vice Provost and Dean of Research and Graduate Policy
- Vice Provost for Undergraduate Education
- Admissions and Financial Aid
- Stanford University Libraries and Academic Information Resources
- Vice Provost for Student Affairs

AUXILIARY ACTIVITIES

- Athletics
- Residential And Dining Enterprises
- Stanford University Press

Graduate School of Business (includes Schwab)
2003/04 Consolidated Forecast

[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Auxiliary Activities	Total
Revenues							
General Funds Allocation	31,718						31,718
Restricted Revenues		20,128	16,500	22,817	280	6,413	66,138
Total Revenues	31,718	20,128	16,500	22,817	280	6,413	97,856
Transfers							
Transfers within Current Funds	37,197	(6,949)	(14,000)	(16,328)			
Transfers from/(to) Endowment Principal							
Transfers from/(to) Plant/Student Loan		(300)					(300)
Total Transfers	37,197	(7,249)	(14,000)	(16,328)			(380)
Total Revenues and Transfers	68,915	12,879	2,500	6,489	280	6,413	97,476
Expenses							
Academic Salaries	22,816	2,371					25,187
Staff Salaries	17,566	1,431				352	19,349
Total Benefits	11,294	1,064				94	12,452
Non-Salary Expenses	17,239	9,640	2,327	6,285	280	5,967	41,738
Total Expenses	68,915	14,506	2,327	6,285	280	6,413	98,726
Surplus / (Deficit)		(1,627)	173	204			(1,250)
Beginning Operating Equity		14,695	16,517	2,948			34,160
Ending Operating Equity		13,068	16,690	3,152			32,910

Notes:

- Operating equity represents reserves available for future uses, along with projects and fund balances restricted for special purposes. Operating equity may include funds that are specifically invested and therefore not available for expenditure in the current period.
- Current funds are resources that are expendable for the primary instruction and research mission of the university, within accounting and donor restrictions, if any. Endowment principal, student loan funds, and plant funds are not considered current funds, as they are held for other specific purposes.

School of Earth Sciences
2003/04 Consolidated Forecast

[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Total
Revenues						
General Funds Allocation	3,746					3,746
Restricted Revenues		3,600	550	11,200	8,390	23,740
Total Revenues	3,746	3,600	550	11,200	8,390	27,486
Transfers						
Transfers within Current Funds	8,194	150	275	(7,916)	244	947
Transfers from/(to) Endowment Principal						
Transfers from/(to) Plant/Student Loan		(15)	(15)			(30)
Total Transfers	8,194	135	260	(7,916)	244	917
Total Revenues and Transfers	11,940	3,735	810	3,284	8,634	28,403
Expenses						
Academic Salaries	5,108	1,179	130		2,007	8,424
Staff Salaries	2,314	567	164		1,020	4,065
Total Benefits	2,122	509	84		574	3,289
Non-Salary Expenses	2,396	1,370	902	3,101	5,033	12,802
Total Expenses	11,940	3,625	1,280	3,101	8,634	28,580
Surplus / (Deficit)		110	(470)	183		(177)
Beginning Operating Equity		7,970	5,133	11,233		24,336
Ending Operating Equity		8,080	4,663	11,416		24,159

Notes:

- Operating equity represents reserves available for future uses, along with projects and fund balances restricted for special purposes. Operating equity may include funds that are specifically invested and therefore not available for expenditure in the current period.
- This budget does not reflect an allocation of tuition revenue or of central administrative costs. This is consistent with Stanford's policy for those units not operating under a formula arrangement.
- Current funds are resources that are expendable for the primary instruction and research mission of the university, within accounting and donor restrictions, if any. Endowment principal, student loan funds, and plant funds are not considered current funds, as they are held for other specific purposes.

School of Education
2003/04 Consolidated Forecast
[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Total
Revenues						
General Funds Allocation	9,578					9,578
Restricted Revenues		186	2,600	3,118	13,632	19,536
Total Revenues	9,578	186	2,600	3,118	13,632	29,114
Transfers						
Transfers within Current Funds	3,386	258	(197)	(2,929)		518
Transfers from/(to) Endowment Principal						
Transfers from/(to) Plant/Student Loan			(400)			(400)
Total Transfers	3,386	258	(597)	(2,929)		118
Total Revenues and Transfers	12,964	444	2,003	189	13,632	29,232
Expenses						
Academic Salaries	5,691	189	456		3,396	9,732
Staff Salaries	2,423	80	410	84	3,130	6,127
Total Benefits	2,053	71	140	18	1,267	3,549
Non-Salary Expenses	2,797	60	201	141	5,839	9,038
Total Expenses	12,964	400	1,207	243	13,632	28,446
Surplus / (Deficit)		44	796	(54)		786
Beginning Operating Equity		4,915	4,237	1,055		10,207
Ending Operating Equity		4,959	5,033	1,001		10,993

Notes:

- Operating equity represents reserves available for future uses, along with projects and fund balances restricted for special purposes. Operating equity may include funds that are specifically invested and therefore not available for expenditure in the current period.
- This budget does not reflect an allocation of tuition revenue or of central administrative costs. This is consistent with Stanford's policy for those units not operating under a formula arrangement.
- Current funds are resources that are expendable for the primary instruction and research mission of the university, within accounting and donor restrictions, if any. Endowment principal, student loan funds, and plant funds are not considered current funds, as they are held for other specific purposes.

School of Engineering
2003/04 Consolidated Forecast

[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Total
Revenues						
General Funds Allocation	44,267					44,267
Restricted Revenues		21,548	17,610	17,789	95,991	152,938
Total Revenues	44,267	21,548	17,610	17,789	95,991	197,205
Transfers						
Transfers within Current Funds	15,777	(4,307)	(560)	(6,000)		4,910
Transfers from/(to) Endowment Principal			(300)			(300)
Transfers from/(to) Plant/Student Loan		(1,000)	(50)	(150)		(1,200)
Total Transfers	15,777	(5,307)	(910)	(6,150)		3,410
Total Revenues and Transfers	60,044	16,241	16,700	11,639	95,991	200,615
Expenses						
Academic Salaries	30,312	2,543	5,284	798	34,067	73,004
Staff Salaries	10,086	5,196	1,802	327	10,465	27,876
Total Benefits	9,571	1,697	970	164	5,366	17,768
Non-Salary Expenses	10,075	6,167	8,144	6,064	46,093	76,543
Total Expenses	60,044	15,603	16,200	7,353	95,991	195,191
Surplus / (Deficit)		638	500	4,286		5,424
Beginning Operating Equity		50,499	41,010	26,790		118,299
Ending Operating Equity		51,137	41,510	31,076		123,723

Notes:

- Operating equity represents reserves available for future uses, along with projects and fund balances restricted for special purposes. Operating equity may include funds that are specifically invested and therefore not available for expenditure in the current period.
- This budget does not reflect an allocation of tuition revenue or of central administrative costs. This is consistent with Stanford's policy for those units not operating under a formula arrangement.
- Current funds are resources that are expendable for the primary instruction and research mission of the university, within accounting and donor restrictions, if any. Endowment principal, student loan funds, and plant funds are not considered current funds, as they are held for other specific purposes.

Hoover Institution
2003/04 Consolidated Forecast

[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Total
Revenues						
General Funds Allocation	1,126					1,126
Restricted Revenues		555	17,950	12,275		30,780
Total Revenues	1,126	555	17,950	12,275		31,906
Transfers						
Transfers within Current Funds	30,724	(555)	(17,950)	(12,275)		(56)
Transfers from/(to) Endowment Principal						
Transfers from/(to) Plant/Student Loan						
Total Transfers	30,724	(555)	(17,950)	(12,275)		(56)
Total Revenues and Transfers	31,850					31,850
Expenses						
Academic Salaries	7,183					7,183
Staff Salaries	7,476					7,476
Total Benefits	4,337					4,337
Non-Salary Expenses	12,854					12,854
Total Expenses	31,850					31,850
Surplus / (Deficit)						
Beginning Operating Equity		1,150	26,350			27,500
Ending Operating Equity		1,150	26,350			27,500

Notes:

- Operating equity represents reserves available for future uses, along with projects and fund balances restricted for special purposes. Operating equity may include funds that are specifically invested and therefore not available for expenditure in the current period.
- Current funds are resources that are expendable for the primary instruction and research mission of the university, within accounting and donor restrictions, if any. Endowment principal, student loan funds, and plant funds are not considered current funds, as they are held for other specific purposes.

School of Humanities & Sciences (includes Overseas Studies Program)
2003/04 Consolidated Forecast

[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Auxiliary Activities	Total
Revenues							
General Funds Allocation	105,451						105,451
Restricted Revenues		3,489	6,913	51,874	62,423	4,206	128,905
Total Revenues	105,451	3,489	6,913	51,874	62,423	4,206	234,356
Transfers							
Transfers within Current Funds	40,394	15,670	(1,544)	(43,806)		184	10,898
Transfers from/(to) Endowment Principal							
Transfers from/(to) Plant/Student Loan		(4,559)	(83)	(37)			(4,679)
Total Transfers	40,394	11,111	(1,627)	(43,843)		184	6,219
Total Revenues and Transfers	145,845	14,600	5,286	8,031	62,423	4,390	240,575
Expenses							
Academic Salaries	74,026	5,189	1,734	1,778	15,219		97,946
Staff Salaries	19,067	2,073	926	720	7,372	2,669	32,827
Total Benefits	22,315	1,581	327	399	3,615	758	28,995
Non-Salary Expenses	30,438	8,856	5,912	6,034	36,217	964	88,421
Total Expenses	145,845	17,699	8,899	8,931	62,423	4,390	248,189
Surplus / (Deficit)		(3,099)	(3,613)	(900)			(7,614)
Beginning Operating Equity		87,565	23,463	34,673			145,701
Ending Operating Equity		84,466	19,850	33,773			138,087

Notes:

- Operating equity represents reserves available for future uses, along with projects and fund balances restricted for special purposes. Operating equity may include funds that are specifically invested and therefore not available for expenditure in the current period.
- This budget does not reflect an allocation of tuition revenue or of central administrative costs. This is consistent with Stanford's policy for those units not operating under a formula arrangement.
- Current funds are resources that are expendable for the primary instruction and research mission of the university, within accounting and donor restrictions, if any. Endowment principal, student loan funds, and plant funds are not considered current funds, as they are held for other specific purposes.

School of Law
2003/04 Consolidated Forecast
[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Total
Revenues						
General Funds Allocation	13,400					13,400
Restricted Revenues		2,300	6,000	15,400	650	24,350
Total Revenues	13,400	2,300	6,000	15,400	650	37,750
Transfers						
Transfers within Current Funds	16,240	(300)	(2,800)	(12,800)		340
Transfers from/(to) Endowment Principal			(500)	(500)		(1,000)
Transfers from/(to) Plant/Student Loan	(123)	(600)	(600)	(1,750)		(3,073)
Total Transfers	16,117	(900)	(3,900)	(15,050)		(3,733)
Total Revenues and Transfers	29,517	1,400	2,100	350	650	34,017
Expenses						
Academic Salaries	9,200	200	350	200	300	10,250
Staff Salaries	6,427	150	500		100	7,177
Total Benefits	4,200	100	230	50	100	4,680
Non-Salary Expenses	9,690	950	1,000	150	150	11,940
Total Expenses	29,517	1,400	2,080	400	650	34,047
Surplus / (Deficit)			20	(50)		(30)
Beginning Operating Equity		1,664	7,160	3,076		11,900
Ending Operating Equity		1,664	7,180	3,026		11,870

Notes:
- Operating equity represents reserves available for future uses, along with projects and fund balances restricted for special purposes. Operating equity may include funds that are specifically invested and therefore not available for expenditure in the current period.
- This budget does not reflect an allocation of tuition revenue or of central administrative costs. This is consistent with Stanford's policy for those units not operating under a formula arrangement.
- Current funds are resources that are expendable for the primary instruction and research mission of the university, within accounting and donor restrictions, if any. Endowment principal, student loan funds, and plant funds are not considered current funds, as they are held for other specific purposes.

School of Medicine
2003/04 Consolidated Forecast
[in thousands of dollars]

	Operating Budget	Designated Funds	Designated Clinics	Restricted Expendable	Restricted Endowment	Grants & Contracts	Auxiliary Activities	Total
Revenues								
General Funds Allocation	81,238							81,238
Restricted Revenues		60,156	171,157	33,713	55,005	344,026	19,114	683,171
Total Revenues	81,238	60,156	171,157	33,713	55,005	344,026	19,114	764,409
Transfers								
Transfers within Current Funds	39,232	(9,148)	2,950	(8,827)	(24,122)			85
Transfers from/(to) Endowment Principal		(5,000)						(5,000)
Transfers from/(to) Plant/Student Loan		(15,495)			(45)			(15,540)
Total Transfers	39,232	(29,643)	2,950	(8,827)	(24,167)			(20,455)
Total Revenues and Transfers	120,470	30,513	174,107	24,886	30,838	344,026	19,114	743,954
Expenses								
Academic Salaries	9,529	10,915	66,116	6,519	8,238	53,484	545	155,346
Staff Salaries	36,511	21,775	49,715	7,298	3,184	60,500	8,937	187,920
Total Benefits	12,242	6,734	31,042	3,721	3,318	29,563	2,820	89,440
Non-Salary Expenses	62,188	25,657	15,274	18,153	14,639	200,479	6,812	343,202
Total Expenses	120,470	65,081	162,147	35,691	29,379	344,026	19,114	775,908
Surplus / (Deficit)		(34,568)	11,960	(10,805)	1,459			(31,954)
Beginning Operating Equity		125,671	4,000	110,096	95,052			334,819
Ending Operating Equity		91,103	15,960	99,291	96,511			302,865

Notes:

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Vice Provost and Dean of Research and Graduate Policy
2003/04 Consolidated Forecast

[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Total
Revenues						
General Funds Allocation	23,068					23,068
Restricted Revenues		4,449	7,704	18,109	80,167	110,429
Total Revenues	23,068	4,449	7,704	18,109	80,167	133,497
Transfers						
Transfers within Current Funds	14,384	(305)	(3,989)	(14,148)		(4,058)
Transfers from/(to) Endowment Principal		(120)		(186)		(306)
Transfers from/(to) Plant/Student Loan			350			350
Total Transfers	14,384	(425)	(3,639)	(14,334)		(4,014)
Total Revenues and Transfers	37,452	4,024	4,065	3,775	80,167	129,483
Expenses						
Academic Salaries	3,650	985	2,236	1,273	11,635	19,779
Staff Salaries	15,149	932	794	555	7,399	24,828
Total Benefits	5,521	481	717	489	3,771	10,979
Non-Salary Expenses	13,131	1,034	3,278	1,929	57,362	76,734
Total Expenses	37,452	3,432	7,025	4,246	80,167	132,321
Surplus / (Deficit)		592	(2,960)	(471)		(2,838)
Beginning Operating Equity		22,122	17,889	18,420		58,431
Ending Operating Equity		22,714	14,929	17,949		55,593

Notes:

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Vice Provost for Undergraduate Education
2003/04 Consolidated Forecast
[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Total
Revenues						
General Funds Allocation	13,467					13,467
Restricted Revenues		27	2,985	3,785		6,797
Total Revenues	13,467	27	2,985	3,785		20,264
Transfers						
Transfers within Current Funds	6,964	(472)	(3,352)	(4,687)		(1,547)
Transfers from/(to) Endowment Principal						
Transfers from/(to) Plant/Student Loan						
Total Transfers	6,964	(472)	(3,352)	(4,687)		(1,547)
Total Revenues and Transfers	20,431	(445)	(367)	(902)		18,717
Expenses						
Academic Salaries	5,129		209			5,338
Staff Salaries	4,939		15			4,954
Total Benefits	2,512		67			2,579
Non-Salary Expenses	7,851	5	29	15		7,900
Total Expenses	20,431	5	320	15		20,771
Surplus / (Deficit)		(450)	(687)	(917)		(2,054)
Beginning Operating Equity		1,911	2,734	3,731		8,376
Ending Operating Equity		1,461	2,047	2,814		6,322

Notes:

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Admissions & Financial Aid
2003/04 Consolidated Forecast

[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Total
Revenues						
General Funds Allocation	22,186					22,186
Restricted Revenues	(548)	350	11,108	28,250	9,300	48,460
Total Revenues	21,638	350	11,108	28,250	9,300	70,646
Transfers						
Transfers within Current Funds						
Transfers from/(to) Endowment Principal						
Transfers from/(to) Plant/Student Loan						
Total Transfers						
Total Revenues and Transfers	21,638	350	11,108	28,250	9,300	70,646
Expenses						
Academic Salaries						
Staff Salaries	3,599					3,599
Total Benefits	1,034					1,034
Total Non-Salary Expenses	1,379					1,379
Undergraduate Financial Aid	15,626	350	11,108	28,250	9,300	64,634
Total Expenses	21,638	350	11,108	28,250	9,300	70,646
Surplus / (Deficit)						
Beginning Operating Equity		916	1,367	2,360		4,643
Ending Operating Equity		916	1,367	2,360		4,643

Notes:

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  Operating equity may include funds that are specifically invested and therefore not available for expenditure in the current period.
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  Endowment principal, student loan funds, and plant funds are not considered current funds, as they are held for other specific purposes.

Stanford University Libraries and Academic Information Resources (including HighWire Press, SU Press, and Media Solutions) 2003/04 Consolidated Forecast

[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Auxiliary Activities	Total
Revenues							
General Funds Allocation	34,234						34,234
Restricted Revenues		1,900	709	7,494	675	17,850	28,628
Total Revenues	34,234	1,900	709	7,494	675	17,850	62,862
Transfers							
Transfers within Current Funds	6,627		(111)	(4,941)			1,575
Transfers from/(to) Endowment Principal							
Transfers from/(to) Plant/Student Loan							
Total Transfers	6,627		(111)	(4,941)			1,575
Total Revenues and Transfers	40,861	1,900	598	2,553	675	17,850	64,437
Expenses							
Academic Salaries	6,679	825	100	450	518		8,572
Staff Salaries	13,561					10,385	23,946
Total Benefits	6,052	249	30	138	157	2,577	9,203
Total Non-Salary Expenses	2,762	976	400	359		4,888	9,385
Library Acquisitions	11,807		800	2,222			14,829
Total Expenses	40,861	2,050	1,330	3,169	675	17,850	65,935
Surplus / (Deficit)		(150)	(732)	(616)			(1,498)
Beginning Operating Equity		397	3,068	3,419			6,884
Ending Operating Equity		247	2,336	2,804			5,386

Notes:

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Vice Provost for Student Affairs
2003/04 Consolidated Forecast
[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Total
Revenues						
General Funds Allocation	17,751					17,751
Restricted Revenues		3,331	283	1,448	379	5,441
Total Revenues	17,751	3,331	283	1,448	379	23,192
Transfers						
Transfers within Current Funds	7,213	(2,034)	(119)	(751)		4,309
Transfers from/(to) Endowment Principal						
Transfers from/(to) Plant/Student Loan						
Total Transfers	7,213	(2,034)	(119)	(751)		4,309
Total Revenues and Transfers	24,964	1,297	164	697	379	27,501
Expenses						
Academic Salaries	1,232			60		1,292
Staff Salaries	11,096	267	125	77	162	11,727
Total Benefits	3,212	81	27	41	48	3,409
Non-Salary Expenses	9,423	1,386	252	321	170	11,552
Total Expenses	24,964	1,734	404	499	379	27,980
Surplus / (Deficit)		(437)	(240)	198		(479)
Beginning Operating Equity		4,690	2,074	2,577		9,341
Ending Operating Equity		4,253	1,834	2,775		8,862

Notes:

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AUXILIARY ACTIVITIES
2003/04 CONSOLIDATED FORECAST
[IN THOUSANDS OF DOLLARS]

ATHLETICS

Operating	
Revenues	
Intercollegiate	15,444.0
Unrestricted Funds	4,156.0
Golf Course	5,419.0
General Funds	4,364.0
Restricted Funds	7,365.0
Faculty-Staff Recreation	1,475.0
Total Revenues	38,223.0
Expenses	
Compensation	18,180.0
Sport Programs	7,423.0
Facilities & Events	4,750.0
Student Services	1,315.0
Administration	5,231.0
University Overhead	1,324.0
Total Expenses	38,223.0
Operating Gain/(Loss)	0.0
Financial Aid	
Revenues	13,053.0
Expenses	13,053.0
Financial Aid Gain/(Loss)	0.0
Camps	
Revenues	4,900.0
Expenses	4,600.0
Camps Gain/(Loss)	300.0
Consolidated	
Total Revenues	56,176.0
Total Expenses	55,876.0
Consolidated Gain/(Loss)	300.0

RESIDENTIAL AND DINING ENTERPRISES

Revenues	
Student Housing	82,534.2
Student Housing: Off Campus	6,866.1
Concessions/Catering	5,946.6
Conferences Housing & Dining	8,264.9
Other Operating Income	6,610.5
Interest Income	161.8
Total Revenues	110,384.1
Transfers	
Grad Housing Subsidy: Off Campus	3,543.1
Rent Loss Reimbursement	250.0
Debt Service Subsidy: Grad Housing	3,300.0
Transfer from Reserves	181.5
Transfers to Plant	(12,200.0)
Transfers to Residential Education	(5,149.1)
Total Transfers	(10,074.5)
Total Revenues and Transfers	100,309.6
Expenses	
Salaries and Benefits	19,314.2
Food Costs	6,819.5
EM & S	5,885.7
Rentals & Leases: Off Campus	10,409.2
Utilities & Telephone	7,546.3
Repairs & Maintenance	11,395.0
Administrative Expenses	10,958.9
Debt Service	19,068.3
Distribution of G&A Expenses	7,348.8
Other Non-Salary Expenses	1,563.7
Total Expenses	100,309.6
Operating Gain/(Loss)	0.0

Auxiliary Activities
2003/04 Consolidated Forecast

[in thousands of dollars]

STANFORD UNIVERSITY PRESS

Revenues	
Net Sales	4,354.9
Other Income	450.0
University Subsidy	486.2
Strategic Initiatives	348.0
Total Revenues	5,639.1
Expenses	
Acquisitions	969.8
Production Editing	287.7
Production and Design	319.0
Printing and Binding	2,301.2
Marketing	1,098.3
Distribution	607.9
Accounting	208.9
Office and General	795.7
University Overhead	266.3
Total Expenses	6,854.8
Total Surplus/(Deficit)	(1,215.7)

Appendix B
Supplementary Information

The tables and graphs in this Appendix provide a general picture of Stanford's status in several different areas. The short summaries below serve as an introduction to the schedules and point out interesting trends or historical occurrences.

Schedule 1 – Student Enrollment

Male undergraduates slightly outnumbered female undergraduates in 2002/03, as they have since 1998/99. The number of TGR's (Terminal Graduate Registration) increased markedly in 1997/98, primarily because changes in Federal policy requiring payment of the tuition of Research Assistants directly from research contracts and grants provided a strong incentive for encouraging eligible graduate students to register as TGRs. The number of TGRs continues to increase rapidly, setting a new record high in 2002/03. The number of non-TGR graduate students decreased in 2002/03 for the second straight year.

Schedule 2 – Freshman Student Apply/Admit/ Matriculate Statistics

The number of applicants for the present freshman class was a bit lower than last year, but still was one of the largest in Stanford's history. Only 12.7% of applicants were accepted. This is the second-lowest admit rate in the past ten years, showing Stanford's increasing selectivity. The yield rate continues to rise both as a result of Stanford's popularity and the addition of an early decision program in 1996.

Schedule 3 – Graduate Student Apply/Admit/ Enroll Statistics

The number of applicants to all of Stanford's graduate and professional programs has fluctuated in the past 10 years around the average figure of 28,000 but rose to a high of over 30,000 in 2002/03. This especially large applicant pool enabled Stanford to be very selective in admissions, to a 10-year low admit rate of 13.8%. The yield for graduate admits had increased slowly but steadily since 1991/92, to almost 53% in 1999/00. The yield rate then dropped a bit in 2000/01 and 2001/02, perhaps reflecting graduate student concerns over the high cost of housing in the Stanford area.

Schedule 4 – Tuition and Room & Board Rates

In the early 1980s tuition at Stanford rose by about 10% each year. The rates of increase slowed substantially after that, and the rates of increase in total expense (tuition plus room and board) in the late 90s were the lowest in the entire period shown in the table. Recent increases in both tuition and room and board have been somewhat higher the past 3 years, reflecting increasing budget pressures.

Schedule 5 – Tuition and Fee Income

Tuition is projected to grow 7.7% over the 2002/03 budget, as the result of a 5.0% increase in the undergraduate tuition rate, a 9.7% increase in the 8-10 unit rate for part-time graduate students, a 50% increase in the terminal graduate registration rate, and the addition of 75 incremental masters students.

Schedule 6 – Undergraduate Financial Aid by Source of Funds and Type of Aid

This schedule shows the total amount of financial aid from all sources (including non-need based scholarship aid for athletics) awarded to undergraduate students. The last row shows Stanford tuition plus room and board. Total scholarships and grants increased by 12.3% in 2001/02, as a result of a higher level of need for the freshman class.

The Stanford unrestricted funds portion of scholarships and grants, which had been rapidly declining the past 3 years, more than doubled in 2001/02, as other sources, particularly gifts and endowment income, have been declining due to economic conditions. Total loans rose only slightly, reflecting the average amount for the past 10 years. The work component of financial aid had been declining since 1994/95, but rose slightly in 2001/02.

Schedule 7 – Needs and Sources, Including Parental and Student Contributions

This schedule shows the total expense and sources of support for undergraduate students who receive need-based financial aid. The last row shows the number of students who receive need-based aid. The expected need amount increases by more than the tuition, room, and board increase for next year (5.0%) because we expect slightly more students to be aided, and because those who are aided have demonstrated greater need. On the "Sources" side for 2003/04 the unrestricted funds required will increase by $1.4 million, or 11%. The need for unrestricted funds had been declining substantially due to strong fundraising and less needy students, but has risen in the past two years to a level similar to that of the late 1990s Unrestricted funds are the source used to make up the difference between need and all other sources, so the amount must increase disproportionately when most of the other sources are expected to grow less than need, as is the case for next year.

Schedule 8 – Students Housed on Campus

The percent of undergraduates housed on-campus has been growing slowly over the past 4 years after a long period of stability as the local rental market becomes tighter and more expensive. Similarly, the percent of graduate students housed by Stanford is growing rapidly, along with the growing graduate student population. To help graduate students cope with the expensive local housing market, in 1998/99 Stanford began leasing off-campus apartments at market rates, and leasing them to graduate students at on-campus rates. As more graduate housing is built on-campus, Stanford hopes to phase out the off-campus subsidized housing program.

Schedule 9 – Total Professorial Faculty

The total professoriate has increased by 12 (less than 1%) since last year. The tenure-line faculty decreased in number while the non-tenure line faculty (mostly the Medical Center Line) increased by 26.

Schedule 10 – Distribution of Tenured, Non-Tenured, and Non-Tenure Line Professorial Faculty

This schedule provides a disaggregated view of the data in Schedule 9 over the last two years. Schedule 10 shows that the total number of tenured faculty has increased by only eight in the past three years, and the number of tenure line faculty who have not obtained tenure has decreased by six. The number of non-tenure line faculty has increased by 41 as more faculty move to the non-tenure line Medical Center Line positions.

Schedule 11 – Number of Non-Teaching Employees

This schedule shows the number of regular (defined in the first footnote in the Schedule) non-teaching employees by activity. To maintain consistency in these data over time in the face of reorganizations, the activity categories have been defined broadly, and the table contains footnotes explaining various shifts across the categories or other changes over the period. The School of Medicine has been particularly affected by organizational changes.

The number of employees increased by 111, or 1.2% in 2002. The new employees are scattered throughout the University, and some units experienced decreases in staff. The very small increase in staff (as compared to prior years) reflects the hiring freeze put in place in Fall of 2002 and the tight budgetary conditions at Stanford.

Schedule 12 – Staff Employees Outside Medicine and SLAC

This graph shows the relation between two series of numbers of employees in various years since 1993. The first series is staff employees in the schools (except Medicine) and independent laboratories (the sum of employees in the categories labeled "Other Academic" and "Dean of Research" in the previous schedule.) The second is a measure of "core" administrative staff who are paid almost entirely from general funds. This category includes Student Services, Libraries, Athletics, ITSS, Development, University Lands and Buildings, Housing and Dining, the Alumni Association, Other, and Administration.

The number of core staff trended down and declined by about 7% between 1993 and 1995. Since then, staff increased each year (except for a flat period in 1998 and 1999) until 2003. This employee growth coincides with increases in some administrative areas of the university, particularly information systems, and then reflects the slight decrease in employees in information systems after the completion of the Axess 2000 project.

Employment in the schools and independent labs has increased each year since 1993, for a growth rate of 30%. Much of this growth was probably related to a steady growth in sponsored research (see Schedule 14).

Schedule 13 – Staff Benefits Detail

To support the various components of non-salary benefits provided to employees, a benefits rate is assessed to all salary and wage transactions. After momentous changes in 1997/98 (multiple benefit rates introduced, the removal of tuition remission from the benefits pool, a change to a contributory retirement plan for all non-union employees), the changes for the last few years have been much simpler (except for the removal of the faculty/staff tuition grant program from the benefits pool in 1999/00). Note that a new benefit rate is being used for health insurance for graduate teaching assistants and research assistants in 2002/03. All four of Stanford's fringe benefits rates will increase from 2002/2003 to 2003/2004, by significant increments. The increases are due in large part to the continuing growth in the cost of health insurance. In addition, many other benefits programs, including all insurance plans, will be more costly

Schedule 14 – Sponsored Research Expense by Agency and Fund Source

Direct expense from research sponsored by the Federal government increased each year in the table. The amount of government-sponsored research in 2001/02 increased by 11%. Non-US Government sponsored research reached 16.5% of total sponsored research expense in 1999/00 and 2001/02, the highest percentage in the years in this table, continuing the trend toward more non-US government sponsored research, though there was a slight decline in this percentage in 2000/01 (15.7%). (Please note that research at SLAC is not included in this Schedule.)

Schedule 15 – Plant Expenditures

This schedule shows expenses from plant or borrowed funds for building or infrastructure projects related to various units. General Plant Improvement expenses are included in the "All Other" category. To the extent possible, expenditures for equipment are excluded from these calculations. These expenses have more than doubled since 1995/96 due to the construction of the Science and Engineering Quad, the Clark Center, and various seismic upgrade and earthquake repair projects such as Green Library, the Museum, and Encina. Plant expenditures decreased in 2000/01, due partly to the conclusion of large projects such as the GSB renovation, Sand Hill Road apartments, the Clinical Sciences Research building, and the new Arrillaga Alumni Center, but increased again in 2001/02 due to the Clark Center and Lokey Laboratory.

Schedule 16 – Endowment Value and Rate of Return

The rate of return for the endowment in 2001/02 was negative (-3.7%) for the second consecutive year. The long-term expected total return has been 9.25% for the past many years. Given the current economic environment, the near term outlook calls for a reduction in the expected total return to 5.0%.

Schedule 17 – Expendable Fund Balances at Year End: 1991/92 through 2001/02

This schedule shows the expendable fund balances (designated and restricted) by academic unit over the past decade.

SCHEDULE 1

Student Enrollment for Autumn Quarter 1993/94 through 2002/03

	Undergraduate			Graduate				
Year	Women	Men	Total	Women	Men	Total	TGR	Total
1993/94	3,073	3,500	6,573	2,030	4,571	6,601	828	14,002
1994/95	3,133	3,428	6,561	2,117	4,509	6,626	844	14,031
1995/96	3,267	3,310	6,577	2,186	4,424	6,610	857	14,044
1996/97	3,283	3,267	6,550	2,094	4,279	6,373	888	13,811
1997/98	3,332	3,307	6,639	2,204	4,254	6,458	987	14,084
1998/99	3,281	3,310	6,591	2,253	4,312	6,565	988	14,144
1999/00	3,238	3,356	6,594	2,332	4,370	6,702	923	14,219
2000/01	3,243	3,305	6,548	2,405	4,348	6,753	947	14,248
2001/02	3,255	3,382	6,637	2,329	4,188	6,517	1,020	14,174
2002/03	3,301	3,430	6,731	2,305	4,109	6,414	1,194	14,339

Source: Registrar's Office third week enrollment figures

SCHEDULE 2

Freshman Apply/Admit/Enroll Statistics
Fall 1992 through Fall 2002

	Total Applications		Admissions		Enrollment	
Year	Number	Percent Change from Previous Year	Number	Percent of Applicants Admitted	Number	Percent of Admitted Applicants Enrolling
Fall 1992	13,209	(2.4%)	2,912	22.0%	1,595	54.8%
Fall 1993	13,604	3.0%	2,926	21.5%	1,607	54.9%
Fall 1994	14,707	8.1%	2,942	20.0%	1,590	54.0%
Fall 1995	15,485	5.3%	2,908	18.8%	1,597	54.9%
Fall 1996	16,478	6.4%	2,634	16.0%	1,610	61.1%
Fall 1997	16,842	2.2%	2,596	15.4%	1,648	63.5%
Fall 1998	18,885	12.1%	2,505	13.3%	1,606	64.1%
Fall 1999	17,919	(5.1%)	2,689	15.0%	1,749	65.0%
Fall 2000	18,363	2.5%	2,425	13.2%	1,599	65.9%
Fall 2001	19,052	3.8%	2,406	12.6%	1,615	67.1%
Fall 2002	18,599	(2.4%)	2,368	12.7%	1,639	69.2%

SCHEDULE 3

Graduate Student Apply/Admit/Enroll Statistics
Fall 1992 through Fall 2002

Year	Total Applications: Number	Total Applications: Percent Change from Previous Year	Admissions: Number	Admissions: Percent of Applicants Admitted	Enrollment: Number	Enrollment: Percent of Admitted Applicants Enrolling
Fall 1992	25,829	(3.6%)	4,504	17.4%	2,226	49.4%
Fall 1993	25,352	(1.8%)	4,379	17.3%	2,157	49.3%
Fall 1994	27,621	8.9%	4,323	15.7%	2,150	49.7%
Fall 1995	28,421	2.9%	4,235	14.9%	2,115	49.9%
Fall 1996	28,160	(0.9%)	4,335	15.4%	2,153	49.7%
Fall 1997	27,924	(0.8%)	4,480	16.0%	2,323	51.9%
Fall 1998	28,877	3.4%	4,601	15.9%	2,376	51.6%
Fall 1999	28,295	(2.0%)	4,525	16.0%	2,387	52.8%
Fall 2000	27,095	(4.2%)	4,422	16.3%	2,288	51.7%
Fall 2001	27,201	0.4%	4,271	15.7%	2,175	50.9%
Fall 2002	30,500	12.1%	4,202	13.8%	2,185	52.0%

SCHEDULE 4

Undergraduate Tuition and Room & Board Rates
1980/81 through 2003/04

Year	Undergraduate Tuition	Percent Change from Previous Year	Room & Board	Percent Change from Previous Year	Total Cost	Percent Change from Previous Year
1980/81	6,285	12.3%	2,636	12.0%	8,921	12.2%
1981/82	7,140	13.6%	2,965	12.5%	10,105	13.3%
1982/83	8,220	15.1%	3,423	15.4%	11,643	15.2%
1983/84	9,027	9.8%	3,812	11.4%	12,839	10.3%
1984/85	9,705	7.5%	4,146	8.8%	13,851	7.9%
1985/86	10,476	7.9%	4,417	6.5%	14,893	7.5%
1986/87	11,208	7.0%	4,700	6.4%	15,908	6.8%
1987/88	11,880	6.0%	4,955	5.4%	16,835	5.8%
1988/89	12,564	5.8%	5,257	6.1%	17,821	5.9%
1989/90	13,569	8.0%	5,595	6.4%	19,164	7.5%
1990/91	14,280	5.2%	5,930	6.0%	20,210	5.5%
1991/92	15,102	5.8%	6,160	3.9%	21,262	5.2%
1992/93	16,536	9.5%	6,314	2.5%	22,850	7.5%
1993/94	17,775	7.5%	6,535	3.5%	24,310	6.4%
1994/95	18,669	5.0%	6,796	4.0%	25,465	4.8%
1995/96	19,695	5.5%	7,054	3.8%	26,749	5.0%
1996/97	20,490	4.0%	7,337	4.0%	27,827	4.0%
1997/98	21,300	4.0%	7,557	3.0%	28,857	3.7%
1998/99	22,110	3.8%	7,768	2.8%	29,878	3.5%
1999/00	23,058	4.3%	7,881	1.5%	30,939	3.6%
2000/01	24,441	6.0%	8,030	1.9%	32,471	5.0%
2001/02	25,917	6.0%	8,304	3.4%	34,221	5.4%
2002/03	27,204	5.0%	8,680	4.5%	35,884	4.9%
2003/04	28,563	5.0%	9,049	4.3%	37,612	4.8%

SCHEDULE 5

Breakdown of Tuition and Fee Income
Projected 2003/04 Budget
[in thousands of dollars]

	Budget 2002/03	Projected 2003/04	2002/03 to 2003/04 Change Amount	Percentage
Tuition:				
Undergraduate	178,347	185,003	6,656	3.7%
Graduate	136,917	150,594	13,678	10.0%
Other[1]	8,977	14,234	5,257	58.6%
Summer	19,849	20,845	996	5.0%
Total Tuition	344,090	370,677	26,587	7.7%
Miscellaneous Fees:				
Application Fees	3,785	3,883	98	2.6%
Other Fees	1,260	1,260		0.0%
Total Fees	5,045	5,143	98	1.9%
Total Tuition and Fee Income	349,134	375,820	26,685	7.6%

[1] "Other" includes TGR (Terminal Graduate Registration) students. TGR tuition was raised to $1,650 per quarter in 2003/04 from $1,110 per quarter in 2002/03, a 50% increase.

SCHEDULE 6

Undergraduate Financial Aid by Source of Funds and Type of Aid[1]
1992/93 through 2001/02
[in thousands of dollars]

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Scholarships and Grants										
Stanford Unrestricted Funds	16,420	17,736	16,593	17,513	13,611	12,201	13,420	8,954	4,568	10,349
Gifts and Endowment Income: Non-Athletic[2]	10,936	12,355	14,762	15,692	20,027	22,526	23,235	26,871	35,660	35,711
Athletic Awards	5,603	5,639	6,328	6,626	7,471	8,232	8,614	8,874	9,842	10,627
Departmental Awards	782	566	455	415	1,372	1,743	2,016	2,238	3,263	3,766
External Grants[3]	8,983	9,448	10,407	11,477	13,757	15,541	15,343	16,713	16,383	17,824
Subtotal for Scholarships and Grants	42,724	45,744	48,545	51,723	56,238	60,243	62,629	63,649	69,717	78,278
Loans										
University Funds	1,333	1,382	1,157	1,290	1,233	787	600	666	612	9
External Funds	9,234	9,763	11,389	11,453	11,519	12,791	12,354	11,279	9,987	11,159
Subtotal for Loans	10,567	11,145	12,546	12,743	12,752	13,578	12,953	11,946	10,599	11,168
Jobs										
University Funds[4]	1,869	3,897	4,175	3,602	3,295	3,255	2,387	2,252	1,120	1,408
External Funds	128	396	367	438	457	691	859	476	736	686
Subtotal for Jobs	1,997	4,293	4,542	4,040	3,752	3,945	3,246	2,728	1,857	2,094
Grand Total	55,288	61,182	65,633	68,506	72,742	77,766	78,828	78,323	82,173	91,540
Stanford Tuition plus Room and Board	22,850	24,310	25,465	26,749	27,827	28,857	29,878	30,939	32,471	35,884

[1] Figures are actual expenses and are in thousands of dollars. The data include all funds awarded to undergraduate students administered through the Financial Aid Office, including aid that is not need-based.

[2] Includes support from the Stanford Fund.

[3] All grants from Federal, state, or private sources.

[4] Includes University match of funds from outside sources.

SCHEDULE 7

Undergraduate Financial Aid
Projected 2003/04 Budget Needs and Sources, Including Parental and Student Contributions[1]
[in thousands of dollars]

	2001/02 Actual	2002/03 Year End Projection	2003/04 Proposed Budget	Change from 2002/03 to 2003/04	Percent Change from 2002/03 to 2003/04
Needs					
Tuition, Room & Board	88,238	96,350	104,986	8,636	9.0%
Books and Personal Expenses	7,993	8,606	9,169	563	6.5%
Travel	1,573	1,651	1,758	107	6.5%
Total Needs	97,804	106,607	115,913	9,306	8.7%
Sources					
Total Family Contribution (Includes parent contribution for aided students, self-help, summer savings, assets, etc.)	39,302	42,326	47,367	5,042	11.9%
Endowment Income[2]	25,823	27,500	28,137	637	2.3%
Expendable Gifts	334	308	308		0.0%
Stanford Fund	9,335	9,388	10,800	1,412	15.0%
Federal Grants	3,993	4,100	4,300	200	4.9%
California State Scholarships	4,555	4,800	5,000	200	4.2%
Outside Awards	3,799	3,900	4,200	300	7.7%
Department Sources	315	315	350	35	11.1%
Unrestricted Funds	10,349	13,971	15,452	1,481	10.6%
Total Sources	97,804	106,607	115,913	9,306	8.7%
Number of Students on Need-Based Aid	2,663	2,780	2,890	110	4.0%

[1] In this table, sources of aid other than the family contribution include only aid awarded to students who are receiving scholarship aid from Stanford. Thus, the sum of the amounts for scholarships and grants will not equal the figures in Schedule 6.

[2] Endowment income includes reserve funds and specifically invested funds.

SCHEDULE 8

Students Housed on Campus
1993/94 through 2002/03

Year	Undergraduates Housed On-Campus	Percent of Undergraduates Housed On-Campus	Graduate Students Housed On-Campus	Graduate Students Housed in Off-Campus Subsidized Apartments	Percent of Graduate Students Housed by Stanford
1993/94	5,799	89%	3,069		43.7%
1994/95	5,734	87%	3,132		42.7%
1995/96	5,819	89%	3,090		41.6%
1996/97	5,749	88%	2,980		39.9%
1997/98	5,864	89%	3,320		44.5%
1998/99	5,917	90%	3,717	250	54.6%
1999/00	5,955	90%	3,408	584	53.6%
2000/01	5,969	91%	3,887	687	60.6%
2001/02	6,199	94%	3,748	932	61.4%
2002/03	6,138	94%	3,828	932	61.8%

SCHEDULE 9

Total Professorial Faculty[1]
1974/75 through 2002/03

	Professors	Associate Professors	Assistant Professors[2]	Tenure Line Total	Non-Tenure Line Professors	Grand Total
1974/75	556	193	284	1,033		1,033
1975/76	565	186	295	1,046		1,046
1976/77	571	194	304	1,069		1,069
1977/78	586	199	287	1,072	86	1,158 [3]
1978/79	600	211	292	1,103	91	1,194
1979/80	620	210	286	1,116	94	1,210
1980/81	642	205	279	1,126	104	1,230
1981/82	661	200	294	1,155	103	1,258
1982/83	672	195	284	1,151	116	1,267
1983/84	682	195	286	1,163	129	1,292
1984/85	691	194	272	1,157	135	1,292
1985/86	708	191	261	1,160	135	1,295
1986/87	711	192	262	1,165	150	1,315
1987/88	719	193	274	1,186	149	1,335
1988/89	709	200	268	1,177	147	1,324
1989/90	715	198	265	1,178	146	1,324
1990/91	742	195	278	1,215	161	1,376
1991/92	756	205	263	1,224	182	1,406 [4]
1992/93	740	209	245	1,194	214	1,408
1993/94	729	203	241	1,173	225	1,398
1994/95	724	198	252	1,174	256	1,430
1995/96	723	205	241	1,169	287	1,456
1996/97	731	205	239	1,175	313	1,488
1997/98	750	213	231	1,194	341	1,535
1998/99	758	217	237	1,212	383	1,595
1999/00	771	204	255	1,230	411	1,641
2000/01	764	198	268	1,230	440	1,670
2001/02	768	204	274	1,246	455	1,701
2002/03	771	202	259	1,232	481	1,713

Data Source: Provost's Office

1 Some appointments are coterminous with the availability of funds.

2 Assistant Professors subject to Ph.D. are included.

3 Beginning in 1977/78, Non-Tenure Line Professors are included.

4 Beginning in 1991/92, Medical Center Line and Senior Fellows in policy centers and institutes are included.

SCHEDULE 10

Distribution of Tenured, Non-Tenured, and Non-Tenure Line Professorial Faculty[1]
2000/01 through 2002/03

School Unit or Program	2000/01 Tenured	Non-Tenured	Non-Tenure Line	Total	2001/02 Tenured	Non-Tenured	Non-Tenure Line	Total	2002/03 Tenured	Non-Tenured	Non-Tenure Line	Total
Earth Sciences	33	5	6	44	33	7	5	45	33	7	5	45
Education	32	11	2	45	32	11	2	45	33	9	3	45
Engineering	149	45	26	220	146	45	24	215	148	41	24	213
Humanities and Sciences	359	144	16	519	359	137	18	514	359	133	19	511
(Humanities)	(149)	(65)	(8)	(222)	(146)	(59)	(9)	(214)	(146)	(52)	(9)	(207)
(Natural Sciences & Math)	(110)	(36)	(5)	(151)	(112)	(34)	(5)	(151)	(114)	(34)	(6)	(154)
(Social Sciences)	(100)	(43)	(3)	(146)	(101)	(44)	(4)	(149)	(99)	(47)	(4)	(150)
Law	39	2	1	42	36	5	2	43	35	4	2	41
Other	4	1	11	16	3	1	12	16	3	1	13	17
Subtotal	616	208	62	886	609	206	63	878	611	195	66	872
Business	53	31	1	85	57	38	1	96	60	34	1	95
Medicine	245	52	373	670	251	60	387	698	246	59	411	716
SLAC	19	6	4	29	21	4	4	29	24	3	3	30
Total	933	297	440	1,670	938	308	455	1,701	941	291	481	1,713

[1] Population includes some appointments made part-time, "subject to Ph.D.," and coterminous with the availability of funds.

SCHEDULE 11

Number of Non-Teaching Employees As of December 15 Each Year[1] 1993 through 2002

Activity	1993	1994	1995	1996	1997	1998	1999[3]	2000	2001	2002
School of Medicine[2]	2,063	1,599	1,598	1,687	1,900	2,039	2,194	2,260	2,421	2,471
Other Academic: Business, Earth Sciences, Education, Engineering, Humanities and Sciences, Law	1,226	1,215	1,270	1,272	1,328	1,353	1,350	1,375	1,493	1,506
Dept of Athletics, Physical Education and Recreation	82	83	97	100	101	110	117	131	128	123
Dean of Research	256	269	278	303	304	300	373	375	391	427
Stanford Linear Accelerator Center	1,240	1,355	1,311	1,310	1,300	1,271	1,287	1,286	1,385	1,415
Student Services: Student Affairs, Admissions & Financial Aid	267	251	253	226	225	240	249	237	257	248
Libraries[6]	306	302	309	326	342	374	372	377	456	466
ITSS (Information Technology Systems and Services)	287	279	354	369	391	407	409	436	518	498
Office of Development	175	137	135	138	126	129	136	147	156	153
University Lands and Buildings Facilities Project Management, O&M, Procurement, Public Safety, Risk Management	452	436	447	456	471	469	350	340	376	375
Housing and Dining	262	267	267	277	285	323	331	338	373	404
Stanford Alumni Association[4]						84	76	88	108	113
Other: Hoover[6], Learning Technology and Extended Education, Research Libraries Group ('93-'94), VPUE ('98-present), Miscellaneous	335	351	240	228	239	278	283	296	282	274
Administration[5] Finance, President's Office, Provost's Office, University Counsel, Press	586	540	472	522	549	595	685	699	716	698
TOTAL	7,537	7,084	7,031	7,214	7,561	7,972	8,212	8,385	9,060	9,171
Percent Change		(6.0%)	(0.7%)	2.6%	4.8%	5.4%	1.9%	2.1%	8.1%	1.2%

[1] Does not include students, or employees working less than 50% time. Over time, university functions may move from one organization to another. For example, prior to 1998, VPUE staff were counted as part of H&S.

[2] The School of Medicine decline in 1994 primarily reflects the integration of the Faculty Practice Plan and some clinics into Stanford Health Services (SHS). The Increase in 1997 is in part due to the shifting of some staff back into the School of Medicine as part of the UCSF merger.

[3] Due to a programming change, 86 staff members not previously included in these counts are included in the 1999 numbers. This primarily affects the School of Medicine (20) and Administration (30). These are not new staff members.

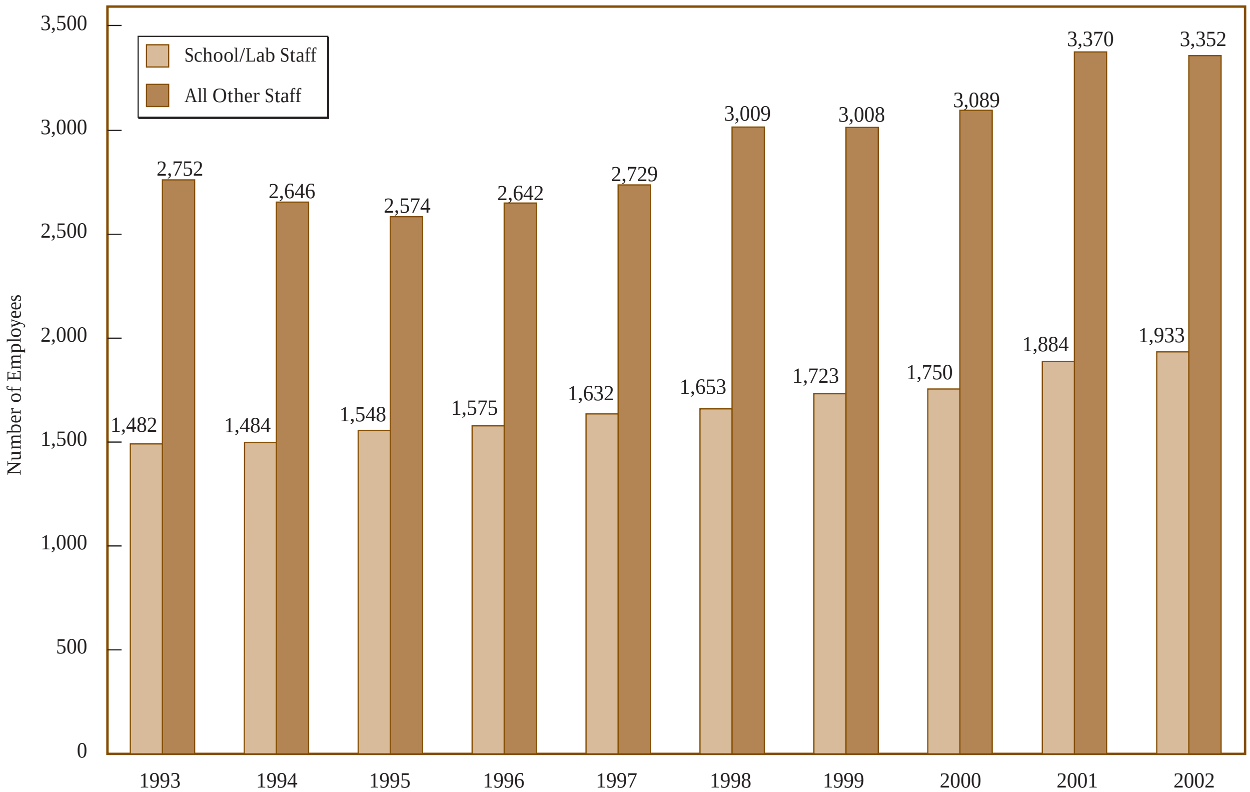
[4] The Stanford Alumni Association was an outside organization prior to 1998.

[5] The staff members in BISA were counted in Administration prior to 1995, but were moved to ITSS in 1996.

[6] The Hoover Libraries staff moved to the university Libraries organization in 2001. The Libraries also acquired Media Solutions.

SCHEDULE 12

Staff Employees in Units Other than Medicine or SLAC
1993 through 2002, as of December 15 of Each Year



SCHEDULE 13

2003/04 Projected Consolidated Budget Staff Benefits Detail

[in thousands of dollars]

Staff Benefits Program	2000/01 Actual Expenditures	2001/02 Actual Expenditures	2002/03 Negotiated Budget	2002/03 Projected Year-End	2003/04 Projected Budget	Increase/Decrease 2002/03 to 2003/04	
Pension Programs							
University Retirement	54,496	60,300	64,823	69,672	72,048	2,376	3.4%
Social Security	53,121	59,632	64,553	64,105	66,290	2,185	3.4%
Faculty Early Retirement	5,778	5,736	5,606	6,227	6,320	93	1.5%
Other	947	1,259	161	621	621	0	0.0%
Total Pension Programs	114,342	126,927	135,143	140,625	145,279	4,654	3.3%
Insurance Programs							
Medical Insurance	25,245	38,818	37,520	39,580	47,814	8,234	20.8%
Retirement Medical	7,395	11,893	14,837	20,054	17,782	(2,272)	(11.3%)
Worker's Comp/LTD/ Unemployment Insurance	1,183	12,717	10,284	11,329	13,344	2,015	17.8%
Dental Insurance	6,603	7,214	6,776	8,089	9,279	1,190	14.7%
Group Life Insurance/Other	3,723	4,482	5,067	7,148	8,104	956	13.4%
Total Insurance Programs	44,149	75,124	74,484	86,200	96,323	10,123	11.7%
Miscellaneous Programs							
Severance Pay	2,033	2,447	1,400	7,677	3,745	(3,932)	(51.2%)
Sabbatical Leave	9,617	10,442	10,248	10,253	10,407	154	1.5%
Other	7,567	9,685	11,036	12,606	12,855	249	1.0%
Total Miscellaneous Programs	19,217	22,574	22,684	30,536	27,007	(3,529)	(11.6%)
Total Staff Benefits Programs Expenses	177,708	224,625	232,311	257,361	268,609	11,248	4.4%
Carry-forward/Adjustment from Prior Year(s)	1,252	(2,237)	(4,518)	(4,518)	6,635	11,153	(246.9%)
Total Expense with Carryforward/Adjustments	178,960	222,388	227,793	252,843	275,244	22,401	8.9%
Budgeted Staff Benefits Rate	23.4%	25.0%	22.6%	25.1%	26.4%		

Note:

The University has four fringe benefit rates for 2003/04, and the single rate shown just above is the weighted average of those rates. The four rates are 29.0% for regular employees, which includes all faculty and staff with continuing appointments of half-time or more, 18.7% for post-doctoral scholars, 9.1% for contingent (casual or temporary) employees, and 3.5% for graduate research and teaching assistants.

SCHEDULE 14

Sponsored Research Expense by Agency and Fund Source[1]
1995/96 through 2001/02
[in thousands of dollars]

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	20001/02
US Government							
Subtotal for US Government Agencies	298,149	336,661	347,109	358,942	371,180	391,156	432,967
Agency[2]							
DoD	48,185	53,984	53,593	54,569	45,689	49,246	52,571
DoE (Not including SLAC)	7,958	8,309	10,523	13,176	18,483	21,760	22,391
NASA	66,626	84,449	77,707	67,492	63,194	54,767	67,069
DoEd	301	2,173	2,433	2,489	2,302	3,618	2,278
HHS	132,754	141,897	155,643	170,403	186,032	204,461	227,167
NSF	29,969	32,730	34,050	36,303	39,060	39,112	41,580
Other US Sponsors	12,356	13,119	13,160	14,509	16,422	18,193	19,911
Direct Expense-US	215,828	252,806	263,674	268,547	275,853	287,865	319,559
Indirect Expense-US[3]	82,321	83,855	83,435	90,395	95,327	103,291	113,408
Non-US Government							
Subtotal for Non-US Government	44,307	48,836	53,941	58,095	73,094	73,012	84,390
Direct Expense-Non US	35,804	39,430	43,671	47,022	58,538	59,209	68,519
Indirect Expense-Non US	8,503	9,406	10,270	11,073	14,556	13,803	15,871
Grand Totals-US plus Non-US							
Grand Total	342,456	385,497	401,050	417,037	444,275	464,168	517,356
Grand Total Direct	251,632	292,236	307,345	315,569	334,392	347,074	388,077
Grand Total Indirect	90,824	93,261	93,705	101,468	109,883	117,093	129,279
% of Total from US Government	87.1%	87.3%	86.6%	86.1%	83.5%	84.3%	83.7%

[1] Figures are only for sponsored research; sponsored instruction or other non-research sponsored activity is not included. In addition, SLAC expense is not included in this table.

[2] Agency figures include both direct and indirect expense. Agency names are abbreviated as follows:

DoD=Department of Defense
DoE=Department of Energy
NASA=National Aeronautics and Space Administration

[3] DLAM indirects are included in this figure.

SCHEDULE 15

Plant Expenditures by Unit[1]
1995/96 through 2001/02
[in thousands of dollars]

Unit	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
GSB	1,124	2,767	9,499	14,400	11,644	1,173	2,993
Earth Sciences	284	1,754	3,703	250	1,321	511	941
Education	187	1,127	3,478	454	297	587	(50)
Engineering	40,626	26,509	44,076	40,801	12,221	2,696	15,541
H & S	26,448	28,576	34,023	22,409	14,006	32,934	17,927
Law	34	391	1,208	1,031	156	1,838	6,586
Medicine[2]	2,346	10,908	22,821	40,902	47,888	6,716	14,240
Libraries	5,783	10,000	16,216	17,823	8,937	3,267	6,483
DAPER	3,968	7,856	6,369	7,007	10,666	13,803	5,708
Housing	21,424	43,398	20,023	30,317	57,206	29,195	40,255
All Other[3]	21,664	54,004	98,339	104,361	143,075	140,327	154,837
Total	123,888	187,290	259,755	279,754	307,418	233,048	265,460

Source: Schedule G-5, Capital Accounting

[1] Expenditures are in thousands of dollars, are from either Plant or borrowed funds, and are for building construction or improvements, or infrastructure.

[2] Includes the Faculty Practice Program when separately identified.

[3] Includes General Plant Improvements expense.

SCHEDULE 16

Endowment Market Value and Rate of Return
1991/92 through 2001/02

Year	Market Value of the Endowment (in thousands)[1]	Annual Nominal Rate of Return	Annual Real Rate of Return[2]
1991/92	2,428,491	7.8%	5.2%
1992/93	2,853,366	19.0%	16.4%
1993/94	3,034,533	8.5%	6.5%
1994/95	3,402,825	15.2%	13.5%
1995/96[3]	3,779,420	20.2%	18.2%
1996/97	4,667,002	23.4%	21.2%
1997/98	4,774,888	1.3%	0.3%
1998/99	6,226,695	34.8%	33.3%
1999/00	8,885,905	39.8%	37.9%
2000/01	8,249,551	(7.3%)	(9.6%)
2001/02	7,612,769	(2.6%)	(3.7%)

Source: Stanford University Annual Financial Report

[1] Includes endowment funds subject to living trust agreements.

[2] The real rate of return is the nominal rate less the rate of price increases, as measured by the Gross Domestic Product price deflator

[3] The method of valuing some assets changed in 1995/96. The effect was to lower the market value for 1995/96 and beyond.
The restated value for 1994/95 under the new methodology would have been $3.225 billion.

SCHEDULE 17

Expendable (Designated & Restricted) Fund Balances at Year-End: 1991/92 through 2001/02

[in millions of dollars]

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	Avg Annual % Change 1991/92-2001/02
Academic Units:												
School of Earth Sciences	10.8	11.9	9.8	11.2	12.4	13.9	14.1	14.4	18.9	21.3	22.9	7.8%
School of Education	2.8	3.2	4.1	5.1	5.6	4.7	4.8	7.1	8.6	9.3	10.1	13.6%
School of Engineering	50.0	46.9	49.0	59.1	67.9	76.8	94.1	105.2	109.6	112.8	115.6	8.7%
Graduate School of Business	17.1	20.7	23.5	23.4	27.6	27.9	29.3	33.3	39.9	38.9	35.5	7.5%
School of Humanities & Sciences	39.4	44.0	49.8	53.6	53.7	65.9	74.2	80.2	86.3	113.6	141.2	13.6%
School of Law	6.1	7.5	5.3	5.7	6.2	8.6	10.9	10.7	11.3	13.2	15.9	10.1%
School of Medicine	146.8	154.1	167.3	171.8	196.6	209.5	225.6	252.2	270.9	309.4	328.0	8.4%
Dean of Research	26.2	27.4	28.7	27.7	41.0	44.0	49.1	53.2	42.4	53.4	59.0	8.5%
Hoover Institution	3.5	2.6	2.0	5.0	8.3	9.0	13.1	18.9	22.0	24.8	26.0	22.2%
VP for Undergrad Education							1.0	5.4	7.5	9.9	10.1	
Total Academic Units	302.7	318.2	339.5	362.7	419.2	460.4	516.2	580.6	617.4	706.5	764.3	9.7%