SECTION 3

ADMINISTRATIVE & AUXILIARY UNITS

ADMINISTRATIVE UNITS

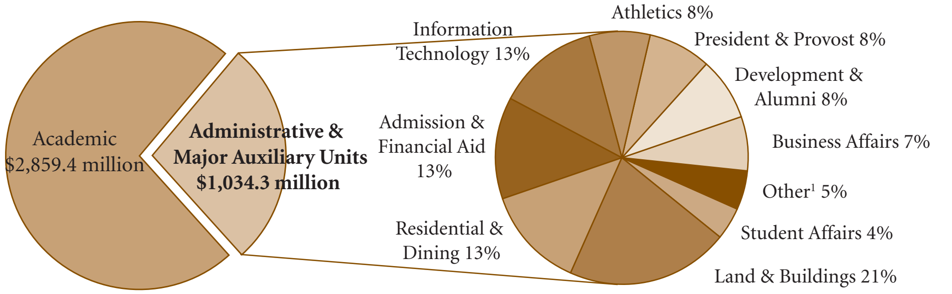
This section focuses on initiatives and priorities in the administrative and auxiliary units of the university. These units provide the needed administrative, academic, and student support that allow faculty and students to do their best work.

Consolidated Budget for Operations, 2009/10: Administrative & Major Auxiliary Units

[in millions of dollars]

	Total Revenues and Transfers	Total Expenses	Results of Current Operations	Transfers (to)/from Assets	Change in Expendable Fund Balance
Administrative Units					
Business Affairs	74.8	74.8			
Business Affairs - Information Technology	127.0	131.5	(4.5)		(4.5)
Development	47.2	47.4	(0.2)		(0.2)
General Counsel	29.4	29.4			
Land, Buildings and Real Estate	221.2	212.2	8.9	(9.0)	(0.1)
President and Provost Office	80.7	80.3	0.4		0.4
Public Affairs	7.3	7.3			
Stanford Alumni Association	34.0	34.9	(0.9)	0.8	(0.1)
Stanford Management Company	20.6	20.6			
Student Affairs	38.0	38.4	(0.5)	(0.4)	(0.8)
Undergraduate Admission and Financial Aid					
Financial Aid Component	127.9	127.9			
Operations	11.2	8.8	2.4		2.4
Major Auxiliary Units					
Athletics					
Financial Aid Component	17.6	17.6			
Operations	64.7	63.6	1.1		1.1
Residential & Dining Enterprises	139.4	139.4	0.1		0.1
Total Administrative & Auxiliary Units	1,041.0	1,034.3	6.7	(8.5)	(1.8)

2009/10 Consolidated Expenses by Administrative & Major Auxiliary Units



[1] Other is Stanford Management Company, General Counsel, and Public Affairs.

BUSINESS AFFAIRS (EXCLUDING INFORMATION TECHNOLOGY)

Business Affairs projects a balanced budget for 2009/10. A surplus from operations of $2–$2.5 million is projected for year-end 2008/09 as a result of not making planned hires in the year and of expeditiously taking 2009/10 budget reductions. The surplus will be placed into reserves to be used for one-time critical projects that could not otherwise be accomplished with the reduced general funds allocations in 2009/10 and 2010/11.

Business Affairs, which includes most of the central administrative units for the university, has focused continuously on process improvement and reallocation of resources for several years. Over the past decade, it has supported university faculty and staff growth of 45% and absorbed numerous new compliance mandates with only a 5% increase in its staff. As other groups cut back their own staff due to budget reductions, they are looking for more support from Business Affairs. The primary focus in 2009/10 is to provide better service with fewer resources and to pursue savings for Business Affairs and across the university.

General funds account for over 75% of all Business Affairs funding. The general funds base budget reduction in 2009/10 is $6 million (9.5%). This reduction will be achieved by restructuring workgroups or services, eliminating discretionary budgets for professional services and other non-salary expenses, negotiating reduced fees from vendors, and reducing staff. Non–general fund revenues are expected to be flat over the prior year. They include property and liability insurance contributions and income for services provided from the hospitals, the School of Medicine, Stanford Management Company, Will Call, and e-Commerce programs.

In January 2009 the Department of Public Safety (DPS) began reporting to the Office of the General Counsel (OGC), and the Procurement Department began reporting to the Vice President for Business Affairs. These reporting changes are reflected in the budget for 2009/10 and represent net reductions in general funds of $10 million, in total revenues and expenses of $15 million, and in fund balances of $1.2 million.

BUSINESS AFFAIRS – INFORMATION TECHNOLOGY

Business Affairs – Information Technology (BA-IT) forecasts a consolidated deficit of $4.5 million for 2009/10. The deficit is primarily attributable to IT project spending exceeding the reduced general fund allocation and the use of reserves to fund the Stanford Electronic Research Administration (SeRA) project. BA-IT project activities span fiscal years and use or create reserve funds annually, depending on the projects undertaken in a given period. Funds for SeRA have been accumulated for several years in anticipation of peak spending in 2009/10 and 2010/11. The service center will have a deficit of $900,000 as well, using its reserve funds as offset. Departmental operating budgets are projected to break even.

BA-IT's three primary organizations work collaboratively to provide seamless solutions and support throughout the campus.

- IT Services (ITS) delivers core IT infrastructure services and support, including networking, telecommunications, data center management, and help desk services, and represents $91 million in operating budget and service center activities, 72% of the 2009/10 consolidated budget.
- Administrative Systems (AS) provides development, support, and enhancement for enterprise applications. Its 2009/10 operating budget of $27 million in base general funds is 21% of the consolidated budget.
- IT and Research Systems Projects has a base budget of $6.7 million, 5% of the consolidated budget for 2009/10. Project activities span fiscal years and carry forward fund balances between years. In 2009/10 these projects will likely include SeRA; enterprise asset management for Land, Buildings and Real Estate (LBRE); data protection and security initiatives; server virtualization for reducing data center costs; and financial reporting projects.

IT service center revenue accounts for nearly 55% of total BA-IT funding, and general funds account for over 40%. The general fund base budget reduction in 2009/10 is $8.3 million (14%). This reduction will be made by continuing to focus on (1) delivering and supporting core computing functions (networking, email, storage, help desk services, etc.); (2) reducing overhead expenses that do not directly contribute to delivering or improving operational capabilities; and (3) enhancing administrative processes while reducing administrative burdens through efficiency gains and resource sharing (i.e., delivering systems initiatives that provide timely information, streamline processes, and reduce costs). Staff reductions, elimination of some services, and technology changes make up the majority of the budget cuts. In addition to the operating budget reductions, service center rates will be held flat in 2009/10.

Several university business units plan to purchase more services from ITS to reduce their local spending and achieve budget reduction targets. Units are discussing ways to leverage central data center services, storage and backup solutions, desktop support resources available through Computer Resource Consulting, and 24x7 dispatch functions. AS is in discussions with DoR, LBRE, and Residential & Dining Enterprises (R&DE) about taking over management of their enterprise systems. It has also worked with the Budget Office and other groups to eliminate multiple separate software licenses where they are no longer necessary. SLAC is considering eliminating its separate HR and financial systems and migrating to the university's PeopleSoft and Oracle applications.

BA-IT will continue to work with the faculty committee identified to steer decisions regarding requirements and models in support of scientific research computing needs. In light of current budget realities, this strategy is being reformulated to significantly reduce impact to the university's capital budgets and plans. DoR, in conjunction with ITS/AS, is proposing a modular, scalable, energy-efficient, high-density facility that will support the research computing requirements of both SLAC and main campus–based research programs.

OFFICE OF DEVELOPMENT

The general funds reductions affected the Office of Development (OOD) greatly in 2009/10 due to the heavy reliance on those monies. Because OOD is in the midst of the Stanford Challenge (a $4.3 billion campaign launched in October 2006), however, it also receives significant one-time funding for campaign-related costs. Campaign expenses account for approximately 29% of the total budget in 2009/10. OOD also receives funding from Stanford Hospital to cover the costs of the Office of Hospital Development (which accounts for all income in the "Healthcare Services" category). Other modest funding sources include internal revenue from the Stanford Fund's Student Calling Program, income from a number of events, and endowment payout.

The overall budget for 2009/10 represents a decrease of 3% from projected actual costs for 2008/09 and of 8% from the planned budget for 2008/09. Projected year-end expenses for 2008/09 are significantly less than originally planned because OOD took steps to reduce expenses in anticipation of cuts to general funds in 2009/10. The projected year-end surplus provides OOD with additional operating budget funds, and it is considering how best to use some of those funds for possible one-time costs to mitigate the impact of the budget reductions. For instance, the office is looking into technology enhancements to streamline our gift processing efforts, which would require some up-front investments but allow us to reduce ongoing expenses.

Much time and effort went into planning the reductions that would be most strategic and allow OOD to successfully generate revenue for the university's highest priorities. As OOD decided what activities or positions to cut, it considered ways to organize more efficiently, eliminate redundancies, and leverage technology to enhance our outreach to donors and prospects. All units within OOD were impacted, but reductions are not uniform across the board. It made some programmatic changes, but staffing changes account for the majority of the required reductions. More than 80% of OOD's base budget is personnel-related, so the reductions required the elimination of positions through attrition, reduced work schedules, and ultimately layoffs. OOD's budget cuts reduced its total headcount about 17%. These decisions were difficult, to say the least, but we believe OOD enters 2009/10 in a strong position to be successful going forward.

The first priority in the year ahead is to sustain the core of excellence: preserving the investments made in our faculty over the past decade, upholding the commitment to the enhanced undergraduate financial aid program, and supporting graduate students through increased fellowship funding. Leading Matters, the main campaign outreach event, will take its message to Denver, New York, Singapore, Taipei, Orange County, Chicago, and the Peninsula in 2009/10. These events have been incredibly well attended, proving that alumni continue to engage with the university even in the declining economy.

History shows a strong relationship between donor giving and both stock market performance and GDP. Giving may well be tempered until positive changes occur on those fronts. In the meantime, OOD will focus on sustaining faculty and students, meeting the original needs of the campaign, and finding support for new ideas that will help fulfill the university's commitment to seek solutions to global problems and educate leaders for the twenty-first century. In addition, OOD will continue to look for ways to work and organize to operate most efficiently and make the most of its reduced resources.

OFFICE OF GENERAL COUNSEL

The Office of General Counsel (OGC) is projecting a $475,000 surplus in 2008/09, largely due to early implementation of the budget cuts and some reallocation of costs from the OGC budget to the self-insurance reserve for a seven-month period. Some of the savings achieved in 2008/09 will be sustainable, although not all of the reallocation of costs will occur every year. OGC expects additional budget cuts to result in savings in 2009/10 that will account for a permanent reduction of 15% of its general funds budget. The proposed level of general funds along with anticipated client retainers is expected to cover operating expenses absent any unanticipated extraordinary matters. OGC expects that it has adequate reserves to backstop a shortfall should one occur.

OGC has cut operational costs by reducing library, seminar, and research expenses; eliminating one .25 FTE file clerk position; reducing another support staff position by .5 FTE; moving from proprietary IT servers to central shared servers; eliminating the cost of office events and meetings; reducing the cost of various office supplies; and reducing accrued vacation.

OGC does not anticipate any significant increase in any of its operational costs in 2009/10 other than increased rates for outside counsel. Although OGC negotiated no change in rates for outside counsel for calendar year 2009, it is unrealistic to expect that will continue in 2010. OGC will continue to look for ways to mitigate the cost of the rate increase by reducing the amount of service provided by outside counsel. OGC will continue its effort to maintain an optimal balance between inside and outside counsel to provide efficient, high-quality service.

OGC will continue to focus on its main strategic priorities: proactively trying to constrain costs by increasing efficiency; identifying risk; and implementing mitigation strategies, including preventative counseling, more comprehensive client training, and early resolution of disputes.

OGC anticipates providing legal services at the required level, via prioritizing risk and careful elimination of non-strategic services.

LAND, BUILDINGS AND REAL ESTATE

Land, Buildings and Real Estate (LBRE) is responsible for implementing the university's $1.8 billion capital plan; managing commercial real estate on endowed lands; managing campus utilities, grounds, and parking and transportation; providing stewardship for 8,180 acres; and operations and maintenance for 340 academic buildings totaling over nine million square feet, Hopkins Marine Station, Stanford in Washington, and other off-campus facilities. Annually, LBRE completes 200 planned projects and 130,000 work orders in support of maintenance and renewal efforts.

The $215 million 2009/10 consolidated budget for LBRE comes from a variety of sources, the largest of which is service center revenues ($107 million, or 50%). Service centers are staffed to meet demand and must break even (within 5%). General funds provide partial revenue for both service center operations (Utilities and Grounds) as well as 100% funding for areas including Zones, the Planned Maintenance Program, and some administrative areas. Parking permits fund Parking & Transportation Services.

In its budget reduction exercise, LBRE examined each of its departments regardless of funding source. The goal was to find efficiencies that would reduce costs without cutting service levels or compromising the Investment in Plant building renewal program.

LBRE's reduction strategy includes five major business process changes that should yield significant cost savings without significant impact on the facilities renewal program. These strategies include reorganization of the maintenance customer service area, reduction of overtime and restructuring of maintenance work to reduce service center rates, outsourcing of warehouse operations, conversion of current systems to Oracle for better integration, and implementation of energy consumption reduction programs to reduce utility costs. Additionally, LBRE will reduce staff where appropriate and comply with the salary freeze policy.

Projected 2009/10 expenditures are anticipated to be 3%, or $7.1 million, lower than the $222.4 million projected for year-end 2008/09. The 2009/10 expenditures include $2.2 million of bridge (one-time) funding to allow time to implement the strategic business process changes.

If the anticipated savings are not realized, LBRE will unfortunately need to cut the Investment in Plant program. This move would not meet the goal of identifying permanent cuts, as deferred maintenance would build over time. The Investment in Plant model currently shows enough funding to meet maintenance needs in 2009/10 and 2010/11, however an average annual deficit of $2.5 million is projected over the next ten years.

PRESIDENT AND PROVOST OFFICE

The President and Provost Office (PPO) comprises the President and Provost Office, the Board of Trustees, Continuing Studies and Summer Session, Procurement, Institutional Research/Decision Support, the University Budget Office, Diversity and Access, Faculty Development and Diversity, Faculty Affairs, Foundation Relations, the Academic Secretary, the Office of Religious Life, and Faculty/Staff Housing. The procurement department will be moving to Business Affairs in 2009/10.

PPO units achieved the 15% target budget reductions for 2009/10. First, the president, the provost, and several senior staff members took immediate reductions in their base salaries. Second, key layoffs occurred in 2008/09. Finally, each unit, when possible, proposed further reductions in addition to the non-salary decrease by eliminating programs.

Despite the economic downturn, PPO projects a slight increase in revenue for 2009/10. The proposed level of general funds, along with a much stronger rental market than anticipated and increased revenue (in large part from a commitment to the Online High School over the next three years and from the Memphis program under the direction of the Educational Program for Gifted Youth) is expected to cover operating expenses. Any unanticipated expenses will be covered with external income, internal income, and reserves, which have grown over time. PPO does not anticipate any significant investments or capital needs in 2009/10.

A key initiative that began early in 2008/09 is the Expanding College Opportunities project to increase the pool of well-qualified low-income students through collective efforts by colleges and universities. The president's office, in collaboration with SIEPR, will have oversight over this project. We are fortunate to have received modest funding for the demonstration phase from the Spencer Foundation and the Andrew W. Mellon Foundation. In addition, we will receive modest programmatic support for this initiative from individual colleges and universities.

PUBLIC AFFAIRS

The Office of Public Affairs (OPA) is a group of organizations that includes Government and Community Relations, Stanford Events, Stanford Ticket Office, and University Communications. University Communications is the communication hub for Stanford, providing professional news reporting for the campus, the Stanford home page, press releases, speechwriting for the President and Provost, and internal/external communications support for the entire university. In addition, OPA is responsible for managing government and community relations on all levels, helping Stanford achieve its research funding goals, lobby for legislation that serves the interests of higher education, and proceed with capital projects as Stanford expands in service to its core mission. Stanford Events oversees university public ceremonies including Commencement, high profile special events, and those hosted by the President/Provost. Stanford Events also sets event policies and procedures in conjunction with risk management and public safety. Along with the Stanford Ticket Office, it is a major touch point for most of the university's interactions with the campus community and beyond.

OPA is projecting a net decrease in funds of $100,000 in 2009/10 with an expected ending balance of approximately $450,000 due to carryforwards from vacant positions in 2008/09. Of this amount, about $175,000 is unrestricted for operating expenses, $115,000 is restricted for Stanford iTunes and for lobbying expenses, and $160,000 belongs to two restricted endowment funds.

Total expenditures are expected to decrease 15% to $7.3 million in 2009/10. Of this amount, $5.8 million is for compensation expenses, a decrease of 14% from 2008/09 and representing 80% of OPA's budget. Nonsalary expenditures are decreasing 19% to $1.5 million. University funds are decreasing 10% to $5.5 million and will cover approximately 75% of the budget. The remaining budget will be covered with earned income ($1.7 million) and reserves ($0.5 million).

To achieve these severe cuts in funding and expenses, OPA is reorganizing several departments and eliminating or reducing programs and nonessential expenses. This will mostly be accomplished by reducing staff 19% (11 FTE). Three of these FTE are currently vacant positions and three are voluntary, while the remaining five are department layoffs. The largest restructuring will be in University Communications followed by a consolidation of financial and administrative operations across OPA. Program eliminations include the discontinuation of the Aurora Forum, Documentary Film productions, and Community Day.

Under the leadership of the new Assistant VP/Director, University Communications will move from a print-oriented, newspaper model to an electronic media model. Several positions will be eliminated while responsibilities of others are expanded and printing/distribution expenditures for several publications are reduced, most notably the Stanford Report, which will no longer be printed beginning in Fall 2009. To fully transition to this new model will require additional one-time expenditures, which OPA plans to fund with savings from currently open positions that will be eliminated as part of the reduction plan, as well as enacting layoffs as soon as they are determined.

OPA is consolidating its financial and administrative operations by eliminating some of the redundancies found across several departments. Ultimately, there will be a net reduction of two FTE (three positions are being eliminated, but a new one will be created) and responsibilities of the remaining financial and administrative staff will be redistributed across individual departments to meet the needs of OPA.

In Government and Community Relations, the currently vacant state relations position will not be filled, leaving Stanford without dedicated state representation for legislative matters affecting the university. Consultants will be used when needed if funding is available.

Stanford Events is reducing expenses in its printed collateral materials associated with Parents' Weekend and Commencement, and trimming as much as possible without sacrificing the integrity and safety of the major events on campus. No staffing reductions are planned at this time.

The implementation of these extensive budget reductions will prove quite challenging to OPA's ability to advance its mission and transition its news service, website, and communications efforts from the traditional print model to the electronic focus required of all present-day media organizations, but it also presents an opportunity to streamline operations and find efficiencies to help achieve OPA's and Stanford's goals.

STANFORD ALUMNI ASSOCIATION

The consolidated fund balance for the Stanford Alumni Association (SAA) is expected to decrease $127,400, largely because reserves will be used to bridge softness in business revenue. SAA will continue to withdraw funds from the life membership endowment fund to underwrite the Web 2.0 project, scheduled for completion in 2009/10.

SAA's forecast reflects continuing alumni outreach efforts with an emphasis on focused, scalable offerings that provide unique benefits to Stanford alumni. SAA also continues to pursue greater efficiencies in its operations.

In response to the revenue decline forecasted for 2009/10, which is attributable to both declining university funds and anticipated softness in SAA business revenue, SAA is pursuing measures to decrease salary and non-salary expense. These cuts are designed to have the smallest impact possible on the alumni community and support SAA's long-term ability to achieve its mission of reaching, serving, and engaging all alumni. Through these cuts and the release of SAA reserves, operations are expected to break even in 2009/10.

STUDENT AFFAIRS

Student Affairs' operating budget will sustain cuts of nearly $3.3 million in general and room rent funds. The division's leadership established several criteria to guide its reduction process and decisions:

- Core services to students would be protected from budget reductions as much as possible.

- Priority would be given to programs and services that focus on student health, safety, and well-being; compliance obligations and risk management; and academic success.
- Budget cuts would be sustainable and would not be uniform across the division because it is important to balance unit needs with those of the larger organization.

The reductions affect programs and staff in all areas of the division. Layoffs or reduced work schedules will affect 25% of staff. Other savings will be achieved by reducing weekend service hours at the Vaden Health Center; deferring replacement of classroom technology; eliminating print versions of publications such as the Stanford Bulletin and quarterly time schedules; and reducing funds for programming, travel, and staff training. The new directors of the Haas Center and the Office of Residential Education will review their respective organizations and strategic initiatives to identify other opportunities for operational efficiencies.

Overall, Student Affairs fund balances will decline by $809,000 to total $16.9 million at year-end, based on total revenues and transfers of $39.0 million and net operating expenses of $38.9 million. Endowment balances will decrease by $381,000 due to decreased payout rates and to underwater endowments for the Office of Accessible Education's Schwab Learning Center and several Haas Center public service programs. Operating budget and designated fund balances will total $1.4 million and $9.2 million, respectively, at year-end, a net total decrease of $411,000 for both fund types, due to drawdown of operating budget and reserve fund balances and to continued decline in revenues collected by Vaden clinics and Career Development Center career fairs. Expendable gift fund balances will remain stable, though gift income is expected to decline slightly. Tresidder Union capital and operating reserves will also change minimally, totaling $2 million.

Additional budget highlights include the following:

- Student Affairs was allocated base funding to support the Community Assistant (CA) program in the graduate residences (managed by the Graduate Life Office). Previously supported with one-time funds, CAs fulfill several important roles for the resident graduate student community, serving as local resources for university programs and policies, including emergency preparedness. Base funding of these positions will allow expansion of CA duties and responsibilities, particularly in graduate student mental health and personal well-being.
- In previous years, Student Affairs was allocated president's funds to support major student events and initiatives. These funds were significantly reduced for 2009/10.
- Vaden continues to experience uncontrollable cost escalation for external medical services.
- Building on recommendations of the Student Mental Health and Well-Being Task Force, Vaden continues to lead efforts to evaluate and seek opportunities to enhance student mental health resources and programs.
- In the fall of 2009, the university will implement a campus health service fee of $167 per quarter. The mandatory fee will apply to all undergraduate and graduate students enrolled on campus, including visiting researchers and students participating in high school summer programs that result in course credit at Stanford. The fee will cover many services provided by Vaden, including primary care medical visits, psychological evaluation and short-term therapy at Counseling and Psychological Services, and health and wellness programs.
- Fees for applying to graduate programs (other than in the Schools of Law, Medicine, and Business) and the one-time document fee assessed to all matriculated students will also be increased in 2009/10.
- The division will continue to move aggressively to centralize IT infrastructure, including server/desktop and Web support services, better leveraging economies and efficiencies of scale.
- In 2009/10, Student Affairs will institute a new policy to reduce financial liabilities from unused vacation leave. All staff will need to use vacation hours the year they earn them.

UNDERGRADUATE ADMISSION, FINANCIAL AID, AND VISITOR INFORMATION SERVICES

Since 2006 the offices of Undergraduate Admission (UGA), Financial Aid (FAO), and Visitor Information Services (VIS) have received support to develop a premier organization to attract and yield the best and brightest undergraduate students. While Stanford was already a household name in the West, over time awareness had diminished significantly in the rest of the country and the world, and Stanford was not competing effectively on a global scale. Since 2006 outreach has increased by a factor of four, and Stanford now has presence and momentum nationally and internationally. In addition, substantial improvements in financial aid have made access to students from low-income and middle-class backgrounds an important institutional priority.

Stanford has benefited from these efforts to significantly increase prospective students' understanding of the extraordinary opportunities available to them as undergraduates. For the class of 2013, applications increased 20% over last year and set a record for the university.

Over this period there have been increases in allocations both to the operating budget, including additional FTEs, and to financial aid for undergraduates. However, for 2009/10, UGA, FAO, VIS, and their central administration have determined that reductions are needed in both salary and non-salary areas.

Salary reductions will include the following:

- Freezing salary for the entire staff
- Laying off six FTEs (8% of total staff). All four units will be impacted by these reductions, and two will be restructured.

Non-salary reductions will include the following:

- Making fewer school visits; there will no longer be customized travel to all states every year, and international outreach will be scaled back.
- Conducting fewer Stanford-unique programs in major markets and curtailing the hosting of visiting groups (e.g., school counselors and nonprofit student workshops)
- Withdrawing from certain professional and nonprofit organizations where partnerships have been formed to provide access to lower-income students
- Eliminating most advertising and development of additional marketing pieces and forestalling additional Web applications targeting prospective students
- Scaling back the Admitted Student Weekend by a full day and night, hence diminishing the comprehensive introduction to the campus that has been acknowledged as one of the best yield events in the country
- Significantly scaling back professional development as well as attendance at national events conducted by professional associations
- Reducing operations expenditures, such as by significantly lowering postage fees and relying more on Web delivery of communications
- Delaying the replacement of internal technology hardware and software and not renewing some software that augments outreach activity
- Scaling back the promotion of alumni volunteers worldwide, including any significant expansion of an interview program; greater activity with prospective and admitted students; and development of more robust interactive technology to support efforts and manage 6,000–10,000 volunteers

In 2008/09 Stanford implemented a new undergraduate financial aid program under which families with annual income under $100,000 are not expected to pay for tuition and parents with income under $60,000 are not expected to contribute at all. Students are asked to support their expenses through summer and academic-year job earnings as well as assets held in their names but are not asked to borrow to meet educational costs. The announcement of the enhanced program in February 2008 met with positive response around the country as well as from applicants and the families of our current students. The difficulty of predicting its effect, coupled with a weakened economy, caused the actual need for scholarship dollars to be roughly $5 million more than anticipated. For 2009/10, the commitment to the need-based scholarship program has been maintained. Factoring in increased costs and potentially an increased number of families demonstrating need for aid, the demand for institutional sources of scholarship dollars has increased 15% over the amount originally budgeted for 2008/09.

MAJOR AUXILIARY UNITS

The budget lines for the School of Medicine, Graduate School of Business, Humanities and Sciences (H&S), VPUE, and Libraries include auxiliary revenues and expenses. These auxiliary operations include Medical School Blood Center, the Schwab Center of the GSB, HighWire Press and Stanford University Press in Libraries, Bing Overseas Studies in VPUE, and Stanford in Washington and Bing Nursery School in H&S. These items are separately identified in the Schools' Consolidated Forecasts in Appendix A, although HighWire Press and Stanford University Press are also discussed in this section. The major independent auxiliaries are Athletics and Residential & Dining Enterprises.

ATHLETICS

As with the rest of the University, the Department of Athletics, Physical Education, and Recreation (DAPER) has experienced significant budget challenges in 2008/09 that are expected to continue and likely worsen for the next few years. Several steps have been taken to address this issue, many of which have impacts well beyond 2008/09. In February 2009 the department announced the elimination of 22 positions. Additionally, the department mandated the usage of annual vacation accruals and made significant cuts in facilities expenses, travel expenses, and various services. In total, over $1.6 million in expense cuts were made in 2008/09. For 2009/10, the department has made even deeper cuts, freezing all salaries, making significant additional cuts in travel expenses, and recognizing additional facilities savings. The total incremental budget savings identified so far for 2009/10 total nearly $3.5 million. The result of all of these cuts is to produce projected surpluses in both 2008/09 and 2009/10. However, the cuts will also have significant impacts on all of DAPER's 35 sports and 20 administrative units.

Operating Budget

Projected revenues and transfers are $59.6 million and projected expenses are $58.5 million, for a surplus of approximately $1 million. The surplus has been built in to recognize the uncertainty of many of our revenue sources in these difficult economic times as well as to prepare for potential deficits in 2010/11 and beyond. This compares to projected 2008/09 revenues of $62.5 million and expenses of $62.3 million. The key driver of the decrease in revenues is the significant decrease in the endowment payout that will be available to cover operating needs. DAPER's actual revenues for the year will largely be determined by the success of football ticket sales and broadcast revenues and the success of annual fundraising efforts. While significant expense reductions have been recognized as described above, several key facilities projects will come on line or be operational for a full year for the first time in 2009/10 and will require incremental funding. These include the Practice Facility and Varsity Weight Room, the Olmsted Housing Project, and the Track Bleacher Expansion.

Financial Aid

DAPER's financial aid endowment is still very strong. In fact, as a result of the change in the endowment payout rate in 2007/08, the payout from DAPER's financial aid endowments will significantly overfund financial aid needs in 2009/10. DAPER has been and is continuing to work with donors to loosen restrictions on some of these funds to allow more dollars to be devoted to operating needs. For 2009/10, projected Financial Aid revenues are $17.6 million and projected expenses are $17.6 million, for a balanced budget. This compares to projected 2008/09 revenues and expenses of $17.3 million.

RESIDENTIAL & DINING ENTERPRISES

The Residential & Dining Enterprises (R&DE) budget for 2009/10 projects an operating surplus of $100,000, with revenues and transfers of $139.4 million (including $8.5 million from the new 600-bed Munger Graduate Residence) and expenses of $139.3 million.

R&DE's budget will provide incremental funding for its continued stewardship of five million square feet of student living and dining space to ensure that these environments are kept comfortable, safe, attractive, and conducive to learning, recreation, and personal development. This plan includes an anticipated decrease in sales and a significant reduction in operating expenses.

External market conditions will be offset by R&DE's budget reduction plan. These conditions include the implementation of the Housing Master Plan; lower revenue growth projections for retail, executive dining, catering, and conference services; and the escalating costs of construction/renovation and expendable materials and supplies.

Savings are anticipated from continued labor optimization efforts (including elimination of 50 staff positions), strategic management of long-term purchasing contracts, reductions in travel and EM&S, improved technological business solutions, deferral of capital improvement projects, reduced annual growth in asset preservation programs, and partnerships with students in ongoing sustainable energy conservation initiatives. Budget reductions of this scale will result in some unavoidable service impacts on students and the campus community. Anticipated impacts include changes in menu offerings and hours of operation in dining halls and cafés, changes in the housing front-desk and after-hours maintenance service model, and elimination of weekend custodial service. These planned reductions will allow R&DE to respond to the current economic conditions.

Despite the substantial challenge presented by the modest combined room and board rate increase of 2.5%, R&DE's budget reduction strategies will enable it to:

- Absorb the $1.7 million loss of graduate housing income due to the implementation of the Housing Master Plan
- Pay a substantial benefits rate increase
- Fund the second living-wage increase for temporary and casual labor
- Sustain operations and maintain reserves of at least 2% of revenues
- Continue funding for Residential Education programs, the Graduate Life Office, and Residential Computing
- Absorb additional maintenance costs due to deferral of capital improvement projects
- Continue funding a modest increase for asset renewal/preservation to manage deferred maintenance and continue addressing seismic retrofit needs, Americans with Disabilities Act (ADA) upgrades, and subsystem replacements
- Fund debt service of $23.5 million for 2008/09 capital improvement projects including:
  - Renovation, repurposing, and management of crowding within Crothers Hall and Crothers Memorial Hall to house undergraduates in support of the Housing Master Plan
  - Housing Master Plan space reconfiguration in eight undergraduate residences
  - Wilbur Hall port-per-pillow installation, bathroom upgrades to replace end-of-life failing assets, and fire sprinkler/alarm upgrades (Cedro and Arroyo)
  - Stern Hall bathroom upgrades (Phase 2 of 2)
  - Row House kitchen replacement (Phase 3 of 7)
  - Escondido Village slab heat systems replacement (Phase 6 of 12)
  - Quillen roof replacement
  - Toyon food service minor upgrade
  - Implementation of card-based door access system in freshman residences
- Fund capital projects scheduled for 2009/10:
  - Wilbur Hall bathroom/fire sprinkler renovation (Junipero and Okada)
  - Escondido Village slab heat systems replacement (Phase 7 of 12)

STANFORD UNIVERSITY PRESS

Like most university presses, SUP has introduced an array of initiatives to offset the impact of the recession on its revenue in 2008/09. These include listwide price increases on the backlist, rotating Web-based sales on selected clusters of titles, use of print-on-demand technology to bring out-of-print titles back into print, acceleration of the e-book program (especially in the form of Kindle editions), aggressive rights selling, reciprocal links to Google Books, and ongoing sale of the workflow management system to other publishers. In 2009/10 the press will continue all these revenue-generating initiatives. In addition, it will reduce output from 165 to just over 150 titles (but with a slightly higher anticipated yield per title based on an ongoing shift in the list mix to books with a broader market potential). This will reduce the strain on product throughput and marketing, allowing the operation to run at a slightly lower headcount. Revenue is expected to increase 3%.

Also in 2009, the program of streamlining the production process was expanded, and new manufacturing cost scales were negotiated. As a result, the gross margins should achieve an all-time high of 65% this year. While annual increases for paper and some third-party production services would normally increase manufacturing costs, these initiatives will allow recovery of these increases and achieve a gross margin of 67% in 2010.

Possibly the greatest cost recovery in 2008/09 has been in overhead. All departments have contributed to the savings, with marketing making the greatest contribution. Fortunately, new initiatives such as e-mail marketing, restructured and retargeted direct marketing campaigns, and innovative publicity strategies have prevented loss of marketing momentum. With the market downturn continuing, all of these initiatives will continue in 2009/10, with total overhead costs being held to 2009 levels.

As in 2008/09, the press will hold steady, and no major investment will be made in infrastructure or systems. Revenue is expected to be $6,749,000; expense is projected to be $7,539,000. The operating deficit of $790,000 will be covered by a planned draw down from the Press Sustaining Fund, which is projected to be approximately $530,000 at the end of 2009/10.

HIGHWIRE PRESS

HighWire Press was founded in 1995 to actively address the challenges of scholarly communication in the digital age. HighWire's mission is to ensure the continuing success of independent, society-based, and other scientific and scholarly publishers in their efforts to disseminate high-quality content worldwide. HighWire builds both the community and the technological environment that such publishers require to thrive within the challenging business of electronic publishing. With its publishing partners, HighWire develops and explores new ideas and emerging technologies to innovate sustainable solutions that meet the ongoing challenges of research communication. Some of the world's highest-impact scholarly content is hosted by HighWire Press, including the Oxford English Dictionary, Science, Proceedings of the National Academy of Sciences, and the Journal of Biological Chemistry, to name but a few.

In spite of continuing competitive pressures and general economic conditions, HighWire succeeded in winning new customers at the rate of approximately one per month in 2008/09. The content of the Mayo Clinic Proceedings and the publications of the Royal Society, founded in London in 1660, were placed online at HighWire. In addition, existing long-term relationships with Sage Publications and the British Medical Journal Publishing Group were recommitted.

As planned, in 2008/09 HighWire used existing reserves to fund investment in a new technology platform (HighWire 2.0, aka H2O), and that self-funded investment will continue in 2009/10. Due to careful resource management, targeted expense reductions, and a market expanding into the hosting of books as well as journals, HighWire projects a modest operating surplus of approximately $500,000 for 2009/10. This surplus is based on revenue of $25.5 million (up 4.5% from 2008/09), operating expenses of $24.5 million (down 1%), and a transfer of $500,000 to Stanford University Libraries. The operating surplus will add to the reserve position and leave a projected $4.0 million in reserves as of August 31, 2010. Reserve levels are expected to continue to grow in future years.

Throughout the balance of calendar 2009 and 2010, HighWire will continue to implement the H2O platform, migrating its approximately 140 publishing customers and more than 1,200 sites to the new functionality. HighWire will also focus on growth through the acquisition of strategically compatible customers.

Expenses are being managed prudently so that HighWire is poised for any need to respond to any downturn in our customers' businesses; however, there do not appear to be significant leading indicators signaling such a downturn. If anything, scholarly publishers may respond to the economic challenges by reducing print publications and placing even more emphasis on their online presence.