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Statements in this presentation that are not historical facts are forward-looking statements based on current expectations of future events and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In addition, we, through our management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. All of these forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those we expected. We therefore caution against placing substantial reliance on the forward-looking statements contained in this presentation. **All forward-looking statements included in this presentation are made only as of the date of this presentation** and we assume no obligation to update any written or oral forward-looking statements made by us or on our behalf as a result of new information, future events or other factors.

2010/11 Stanford University Budget Plan

Faculty Senate
May 27, 2010

Outline

- Context and Highlights
- Consolidated Budget
- General Funds Budget
- Capital Budget and Capital Plan
- Lessons Learned

Context: 2008-09

- In 2008-09, Stanford experienced the largest endowment drop in 50 years
- Ironically that same year, Investment Income had for the first time surpassed Sponsored Research as the largest single revenue source
- Anticipated loss in Endowment Payout in excess of \$200M

Reaction: 2009-10

- Suspended endowment “smoothing rule” to adjust payout in two years
- Froze salaries for 2009/10
- Delayed or cancelled \$1.2B in capital projects
- Laid off 500 staff; froze 50 faculty positions
- Closed anticipated \$130M General Funds deficit through cuts, savings, and revenue enhancement

Looking Forward: Consolidated Budget 2010-11

- Consolidated Budget for Operations
 - \$84.5M surplus on \$3.8B in revenues
 - Modest salary program for faculty and staff
 - Continued increase in research funding due to ARRA

Looking Forward: General Funds Budget 2010-11

- General Funds Budget
 - Projected \$26M surplus on \$802M in non-formula general funds
 - Includes \$20M in endowment mitigation for schools
 - \$10M allocated to financial aid
 - \$15M selected program support

Looking Forward: Capital Budget 2010-11

- Capital Budget and Capital Plan
 - \$1.5B Capital Plan (down from \$1.8B in 2009-10)
 - \$368M Capital Budget (down from \$647M in 2009-10)
 - Selected projects reactivated; notably Bing Concert Hall, Madera Grove Childcare Center

Consolidated Budget for Operations

Wednesday, May 26, 2010

9

Consolidated Budget

2008-09 Actuals	2009-10 Projected		2010-11 Budget Plan	1-Year Change	2-Year Change
\$612	\$655	Student Income	\$680	3.9%	11.2%
1,000	1,121	Sponsored Research	1,151	2.6%	15.0%
533	597	Direct Costs - University	607	1.8%	14.0%
294	326	Direct Costs - SLAC	346	6.1%	17.7%
174	199	Indirect Costs	198	-0.6%	13.7%
484	496	Health Care Services	519	4.7%	7.1%
223	225	Expendable Gifts & Net Assets Released	240	6.7%	7.6%
1,075	898	Investment Income	905	0.7%	-15.9%
954	851	Endowment Income	758	-10.9%	-20.6%
121	47	Other Investment Income	147	209.5%	21.2%
350	342	Other Income	349	1.9%	-0.5%
\$3,745	\$3,737	Total Revenues	\$3,843	2.8%	2.6%
1,830	1,899	Salaries and Benefits	1,988	4.7%	8.7%
294	326	SLAC	346	6.1%	17.7%
210	216	Financial Aid	217	0.6%	3.4%
1,032	1,067	Other Operating Expenses	1,100	3.1%	6.5%
\$3,366	\$3,508	Total Expenses	\$3,651	4.1%	8.5%
\$379	\$229	Revenues less Expenses	\$192		
(209)	(78)	Total Transfers	(107)		
\$170	\$151	Revenues less Expenses after Transfers	\$84		

Dollars in millions

Wednesday, May 26, 2010

10

A Closer Look at Revenue Growth

2008-09 Actuals	2009-10 Projected		2010-11 Budget Plan	1-Year Change	2-Year Change
Controlled by Provost/Deans					
\$502	\$534	Tuition	\$554	3.8%	10.5%
174	199	Indirect Costs	198	-0.6%	13.7%
350	342	Other Income	349	1.9%	-0.5%
1,075	898	Investment Income	905	0.7%	-15.9%
\$2,101	\$1,974	Subtotal	\$2,006	1.6%	-4.6%
Controlled by Departments/Faculty/Other					
110	121	Room & Board	126	4.3%	14.2%
533	597	Direct Costs - University	607	1.8%	14.0%
294	326	Direct Costs - SLAC	346	6.1%	17.7%
484	496	Health Care Services	519	4.7%	7.1%
223	225	Expendable Gifts & Net Assets Released	240	6.7%	7.6%
\$1,644	\$1,763	Subtotal	\$1,837	4.2%	11.8%
\$3,745	\$3,737	Total Revenues	\$3,843	2.8%	2.6%

Dollars in millions

Wednesday, May 26, 2010

11

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Dollars in millions

Wednesday, May 26, 2010

12

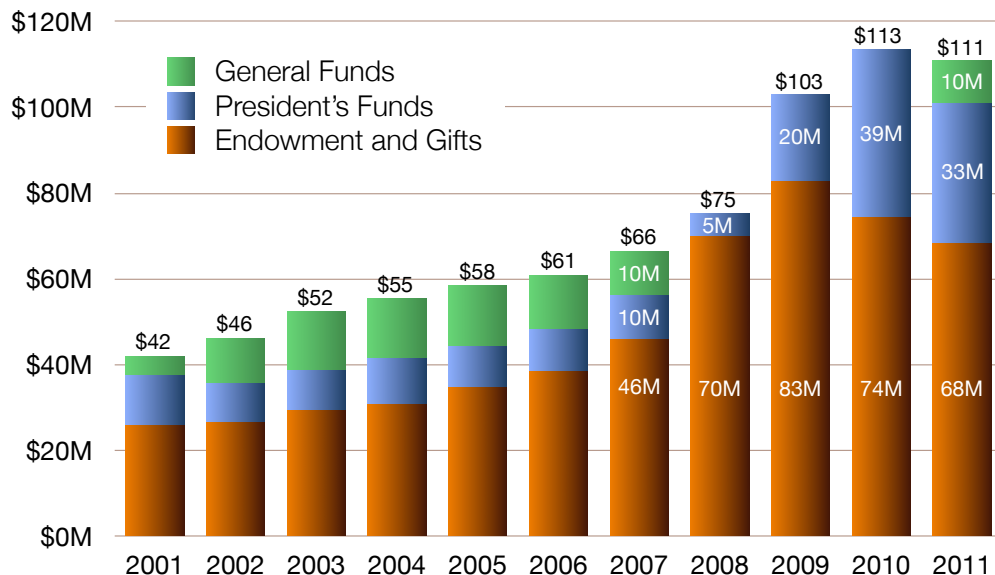
Consolidated Budget

2008-09 Actuals	2009-10 Projected		2010-11 Budget Plan	1-Year Change	2-Year Change
\$612	\$655	Student Income	\$680	3.9%	11.2%
252	268	Undergraduate Tuition	278	3.7%	10.3%
249	267	Graduate Tuition	276	3.4%	10.8%
110	121	Room & Board	126	4.1%	14.5%
210	216	Financial Aid	217	0.6%	3.4%
<i>Undergraduate</i>					
102	113	Need-Based Aid	111	-1.8%	8.8%
8	7	Grants & Contracts	5	-25.7%	-35.0%
17	19	Athletic	20	3.7%	15.3%
127	139	Total Undergraduate	136	-2.2%	6.9%
<i>Graduate</i>					
79	77	Financial Aid	82	6.0%	3.4%
50	50	Graduate Stipends*	54	8.3%	7.4%
60	62	Tuition Allowance*	60	-2.9%	0.2%
88	92	RA/TA Salaries*	90	-2.4%	1.9%
277	281	Total Graduate	285	1.7%	3.0%

* Included in Salary & Benefits line of Consolidated Budget

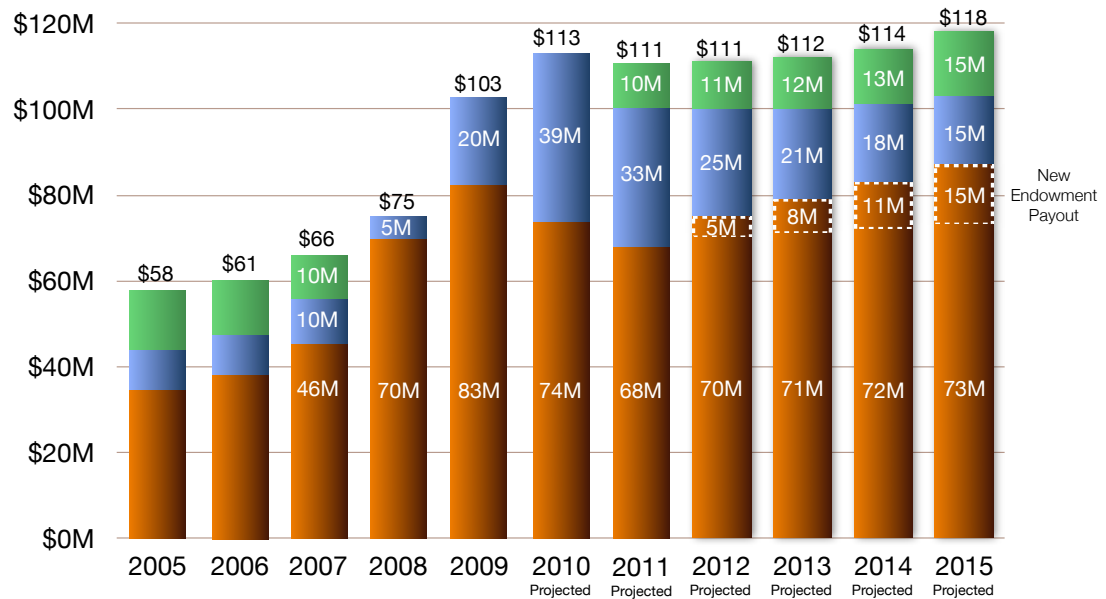
Dollars in millions

Undergraduate Need-Based Aid



Does not include athletic scholarships or outside sources

Undergraduate Need-Based Aid



Wednesday, May 26, 2010

15

Consolidated Budget

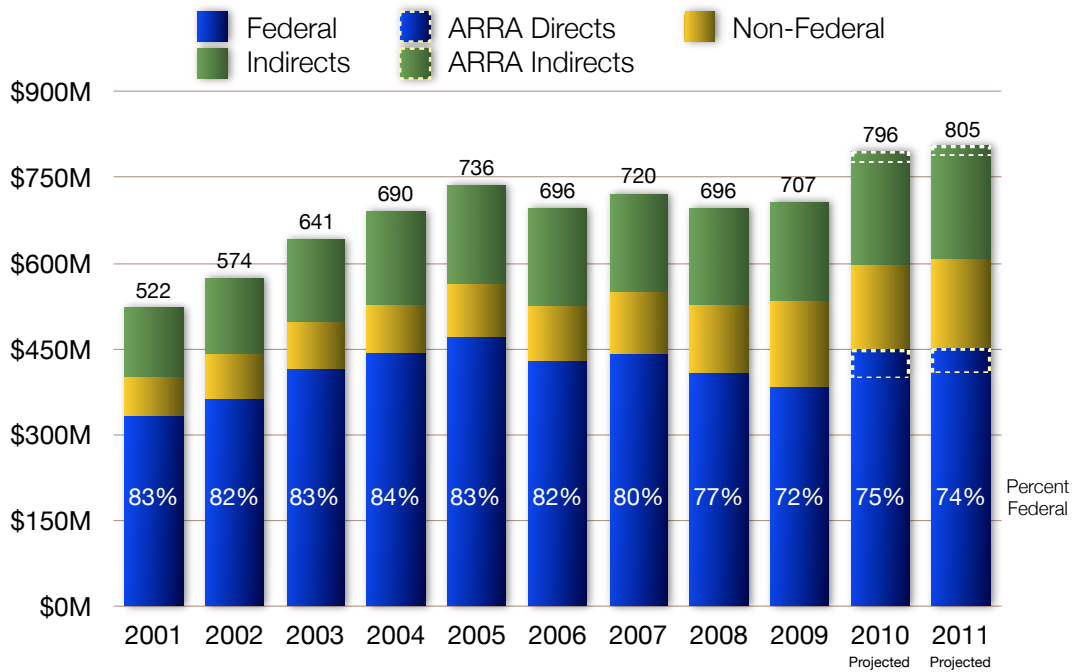
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Dollars in millions

Wednesday, May 26, 2010

16

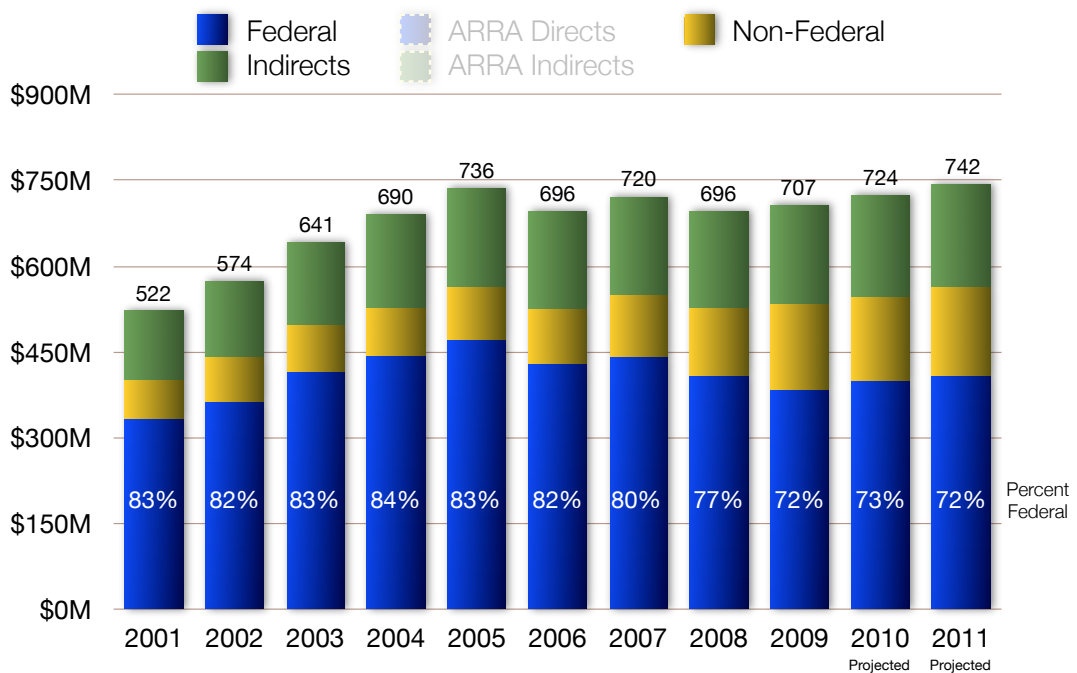
Sponsored Research



Wednesday, May 26, 2010

17

Sponsored Research *without ARRA*

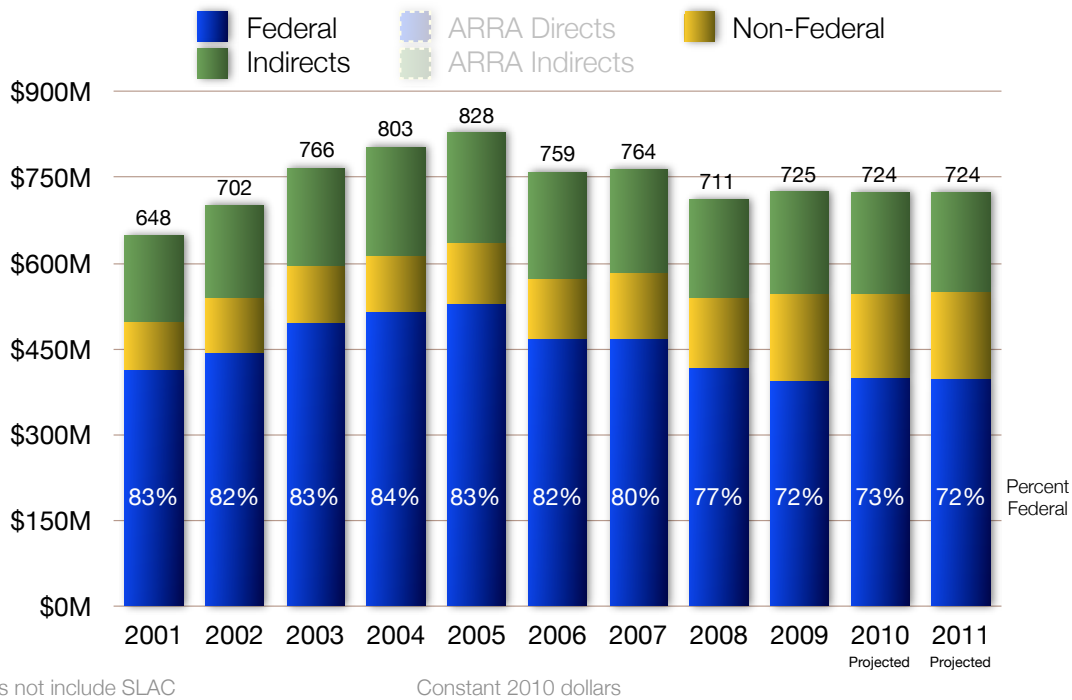


Wednesday, May 26, 2010

18

Sponsored Research

without ARRA, inflation adjusted



Wednesday, May 26, 2010

19

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Wednesday, May 26, 2010

20

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Dollars in millions

Wednesday, May 26, 2010

21

Consolidated Budget

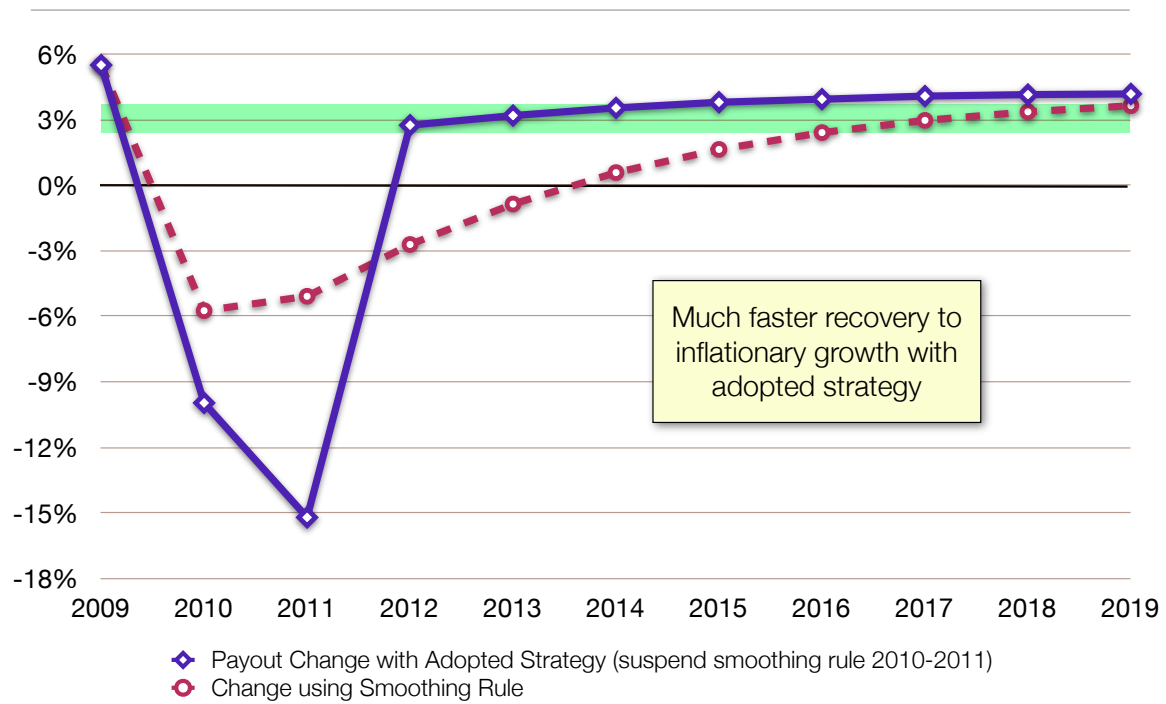
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Wednesday, May 26, 2010

22

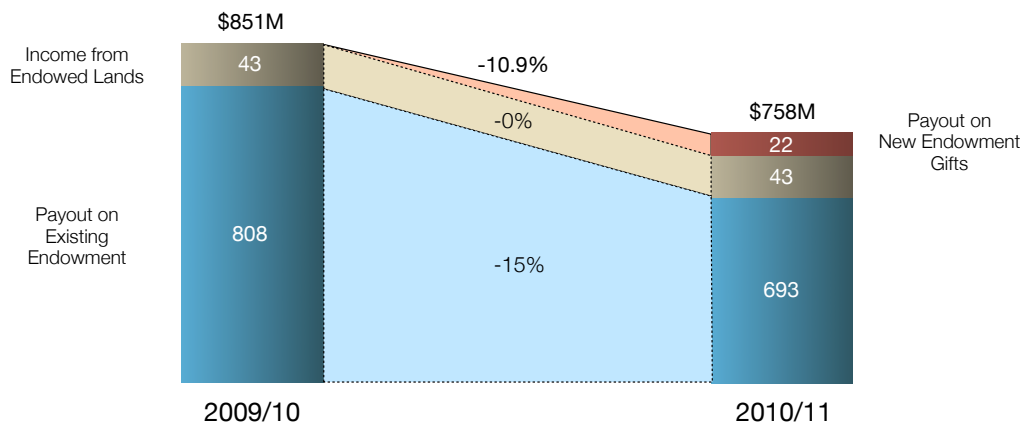
Year-Over-Year Change in Endowment Payout *Adopted Strategy vs. Smoothing Rule*



Wednesday, May 26, 2010

23

Endowment Payout Decline



Wednesday, May 26, 2010

24

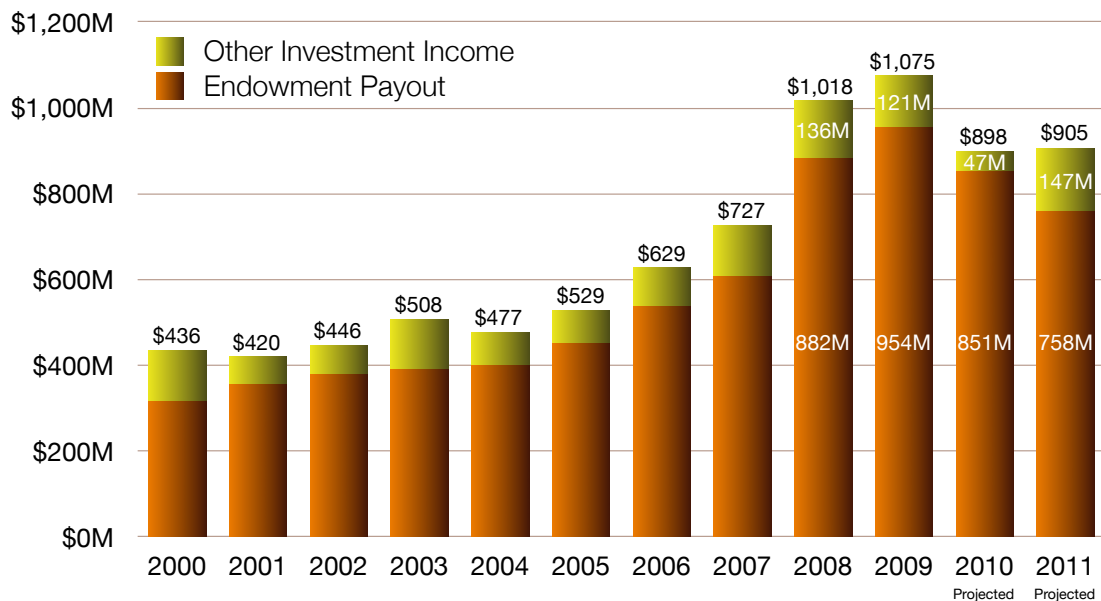
Other Investment Income

	2009	2010	2011
Expendable Funds Pool Return	0%	7.5%	
EFP Payout Percentage (5.5% max)	5.5%	0%	5.5%
EFP Income	\$81.0M	\$1.3M	\$93.7M
Other Other Investment Income	\$40.0M	\$46.1M	\$53.0M
Total	\$121.0M	\$47.4M	\$146.7M

Wednesday, May 26, 2010

25

Total Investment Income



Wednesday, May 26, 2010

26

Consolidated Budget

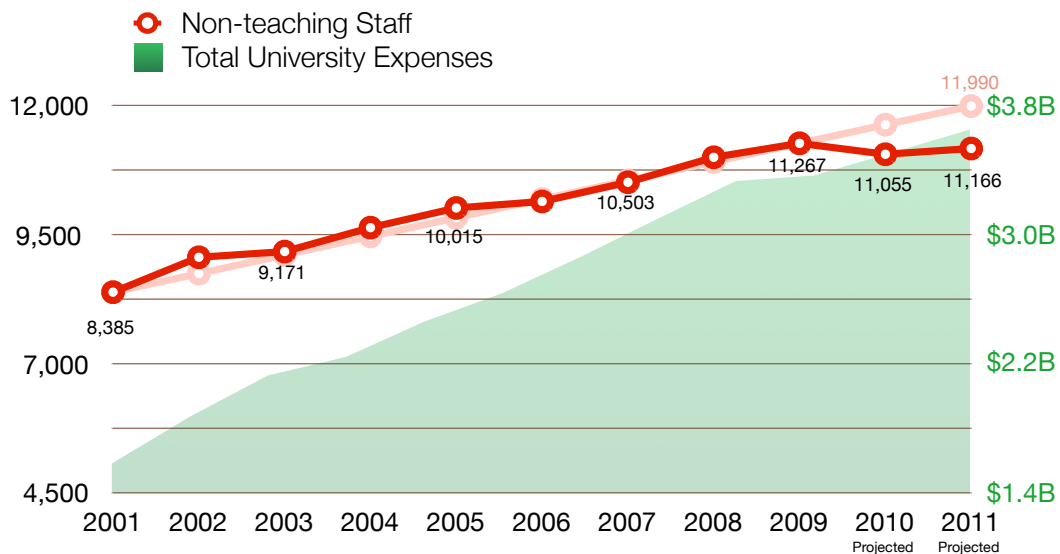
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Dollars in millions

Wednesday, May 26, 2010

27

Staff Headcount

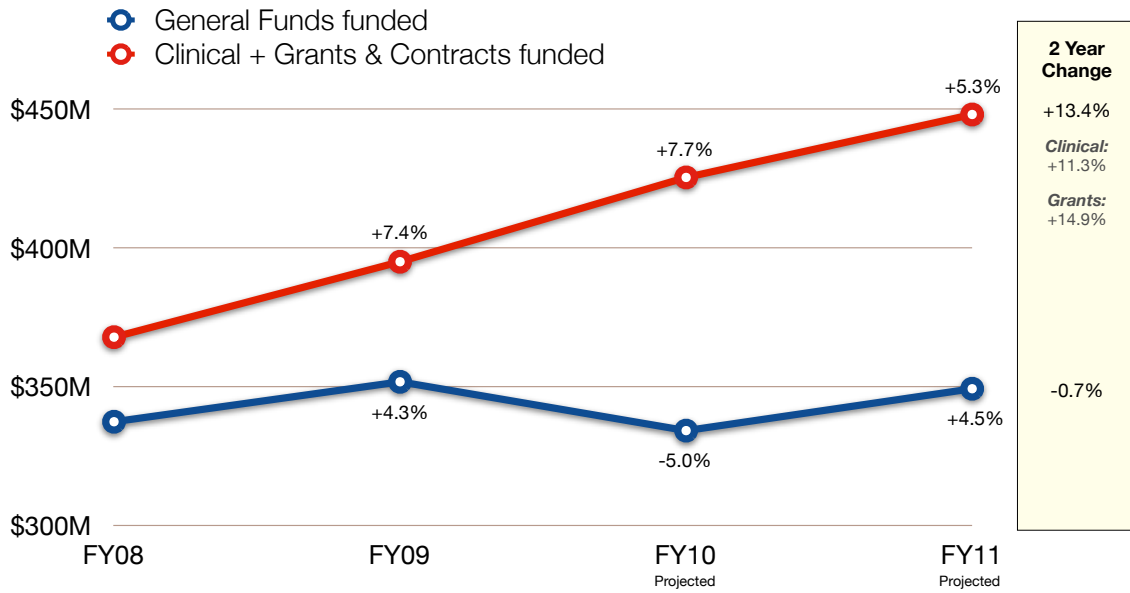


Wednesday, May 26, 2010

28

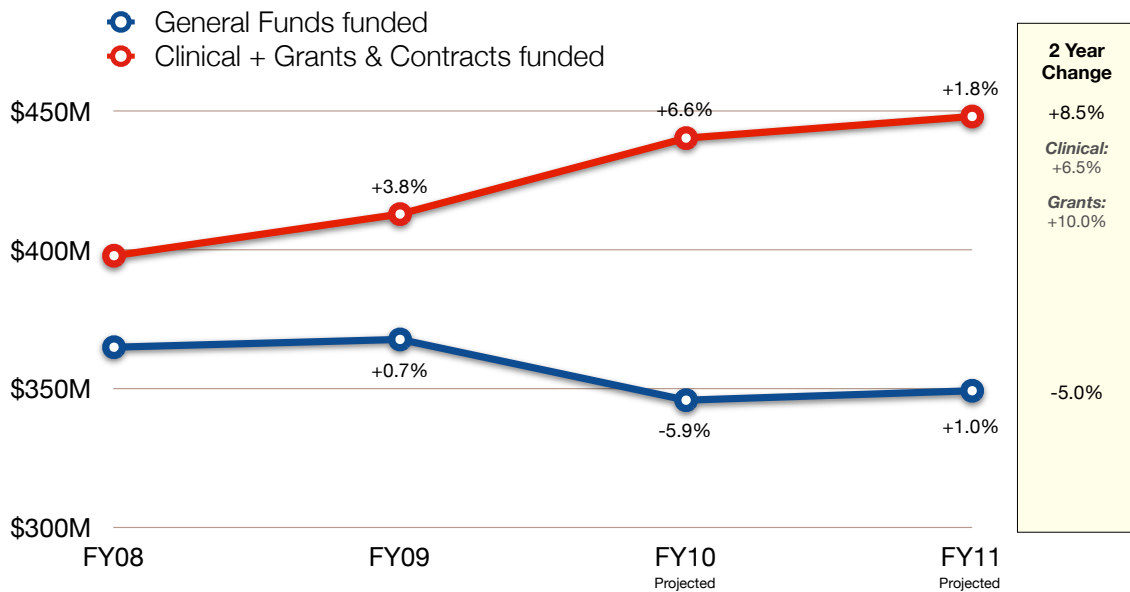
Salary Growth

Nominal dollars



Salary Growth

Adjusted for salary inflation



Consolidated Budget

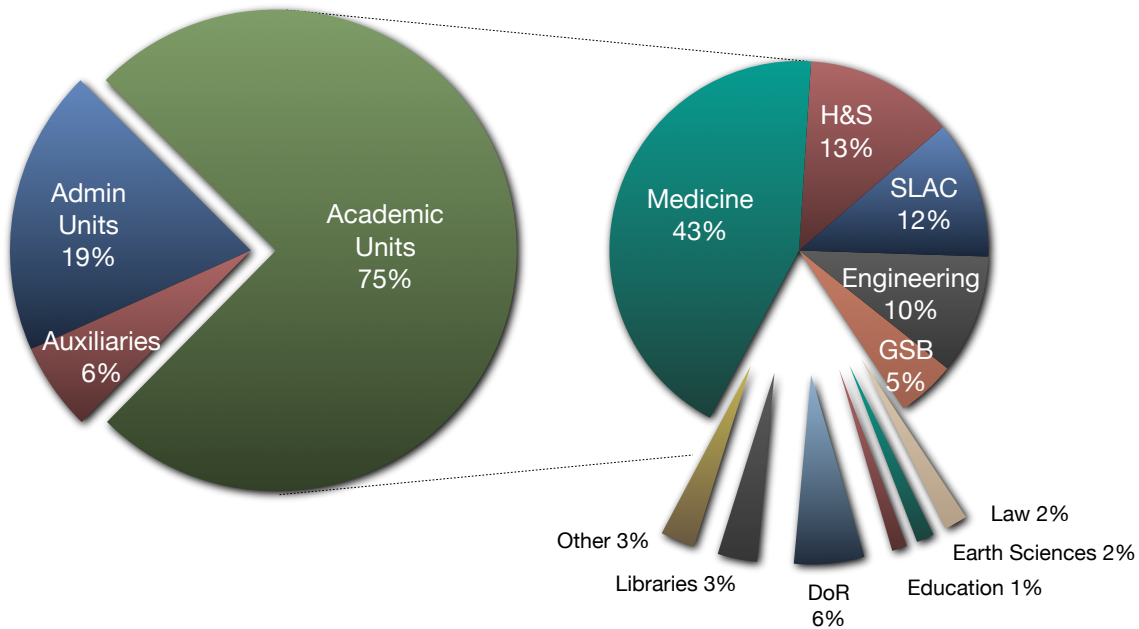
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Wednesday, May 26, 2010

31

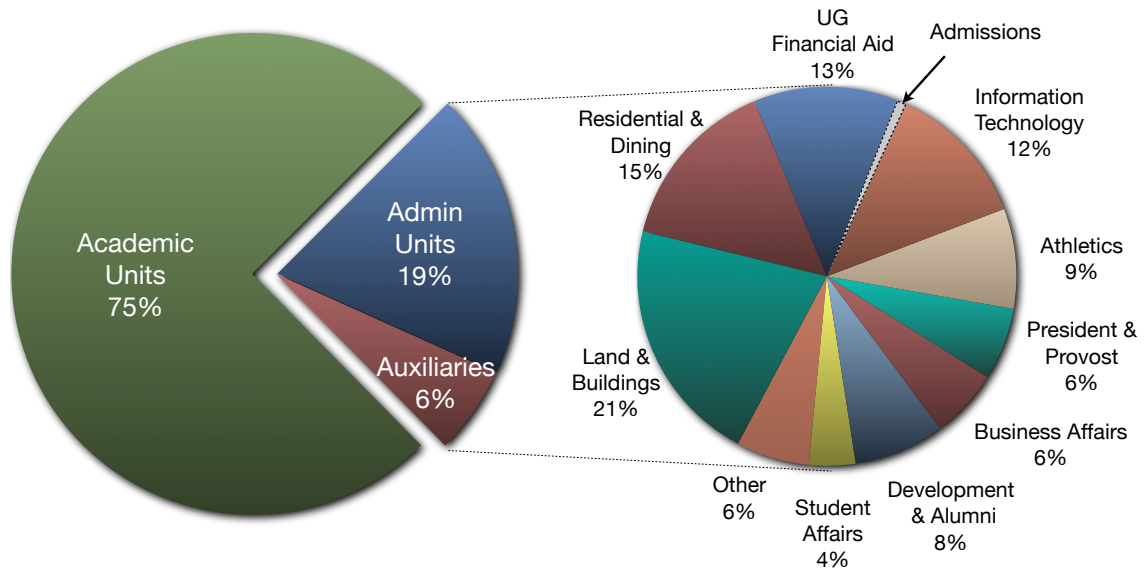
Consolidated Budget by Academic Unit



Wednesday, May 26, 2010

32

Consolidated Budget by Administrative Unit



Other is General Counsel, Public Affairs and Stanford Management Company

General Funds Budget

Improving General Funds Outlook

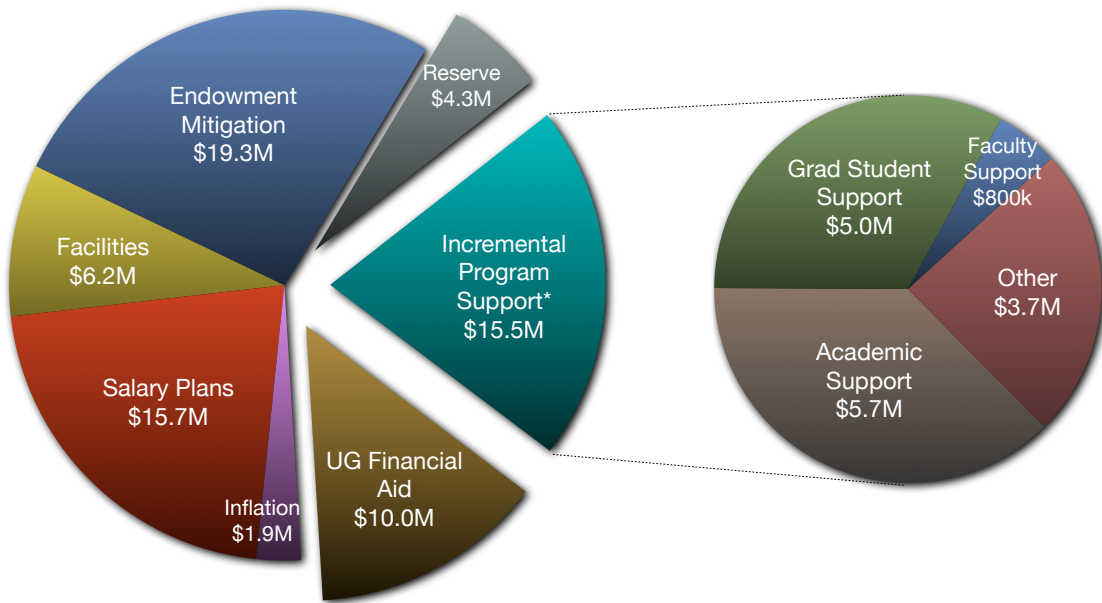
- In June 2009, projected a balanced budget for 2010-11
- Projection included:
 - Salary increase program: \$15.7M
 - Funding for new facilities: \$6.2M
 - Endowment mitigation: \$30M (75% mitigation)
- Improved revenue outlook and expense reductions allowed:
 - Undergraduate financial aid: \$10M
 - Incremental program support: \$15M
 - Restoration of University reserve: \$4M

Budget Forecast

Changes Since Last Year

	2010/11	Forecast	
		2011/12	2012/13
Bottom Line Forecast (June 2009)	\$ 0.0	\$ (15.0)	n/a
Changes			
Improved Endowment Market Performance	16		
Revised Indirect Cost Recovery Forecast	4		
Revised Tuition Forecast	7.6		
Endowment Mitigation at 50% instead of 75%	10		
Revised Utilities, O&M, Central Services Forecast	18.1		
Priorities			
Financial Aid	-10		
Program Allocations	-15.2		
Restoration of University Reserve	-4.3		
General Funds Bottom Line	\$ 26.3	\$ 21.2	\$ 20.0

General Funds Additions

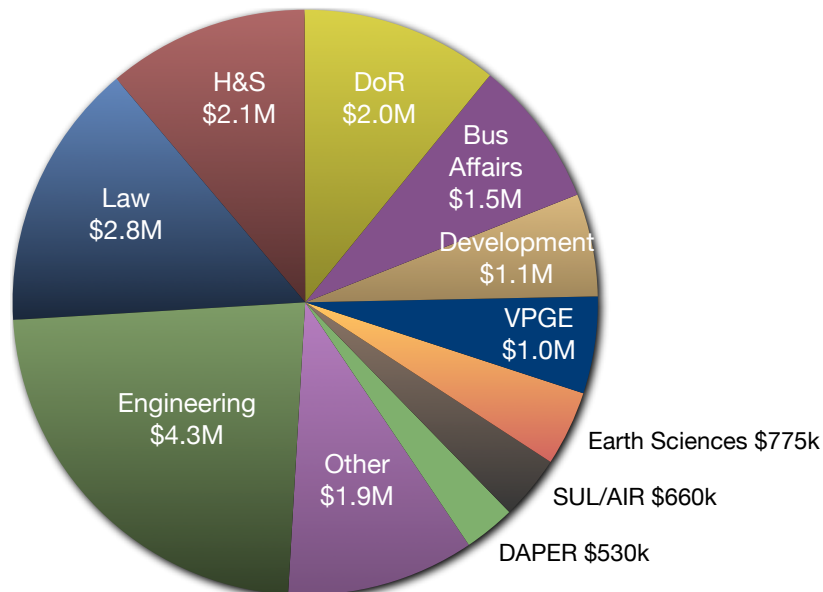


* Includes additional endowment mitigation.

Wednesday, May 26, 2010

37

Incremental Program Allocations by Unit



Other is Admissions, Alumni, Central, Education, General Counsel, LBRE, VPSA & VPUE

Wednesday, May 26, 2010

38

A Two-Year Perspective

General Funds and Endowment Changes

	Academic Units			Administrative Units		
	General Funds	Endowment Payout	Total	General Funds	Endowment Payout	Total
2008/09 Base Funding	\$307	\$366	\$674	\$278	\$65	\$342
2-Year Payout Declines		-76			-14	
GF Mitigation of Payout Declines	39			0		
Net GF Additions/Reductions	-26			-28		
Salary and Inflation Allocation	19			13		
Net Funding Changes	32	-76	-44	-15	-14	-29
2010/11 Base Funding	\$340	\$290	\$630	\$262	\$51	\$313
Percent Change (nominal)			-6.5%			-8.5%
Adjusted for Two-Year Bay Area CPI (3.9%)			-10.4%			-12.4%

Endowment amounts exclude one-time effects of underwater endowment shortfalls

Dollars in millions

Capital Budget and Three Year Capital Plan

Capital Plan

Selected Major Projects

	Project Schedule	Total Project Cost	2010/11 Capital Budget
<i>Projects in Design & Construction</i>			
Knight Management Center	2006-11	\$345	\$122
Bioengineering/Chemical Engineering	2005-13	137	16
Bing Concert Hall	2009-12	112	49
William H. Neukom Building	2008-11	64	23
Olmsted Terrace Faculty Homes (39 units)	2008-11	29	8
Freidenrich Center for Translational Research	2010-12	24	10
Cognitive and Neurobiological Imaging (CNI) Center	2009-11	8	2
Stanford Center in China at Peking University	2008-11	5	3
Madera Grove Children's Center/Mulberry House	2008-11	5	4
<i>Other Projects in Design & Construction</i>		68	29
Total Projects in Design & Construction		796	265
Total Forecasted Projects		222	16
Total Infrastructure Projects		498	87
Capital Plan and Budget Totals		\$1,516	\$368

Note: Total estimated projects cost for projects completing in fiscal year 2010-11 is \$529.5 M

Dollars in millions

Wednesday, May 26, 2010

41

Lessons Learned

Wednesday, May 26, 2010

42

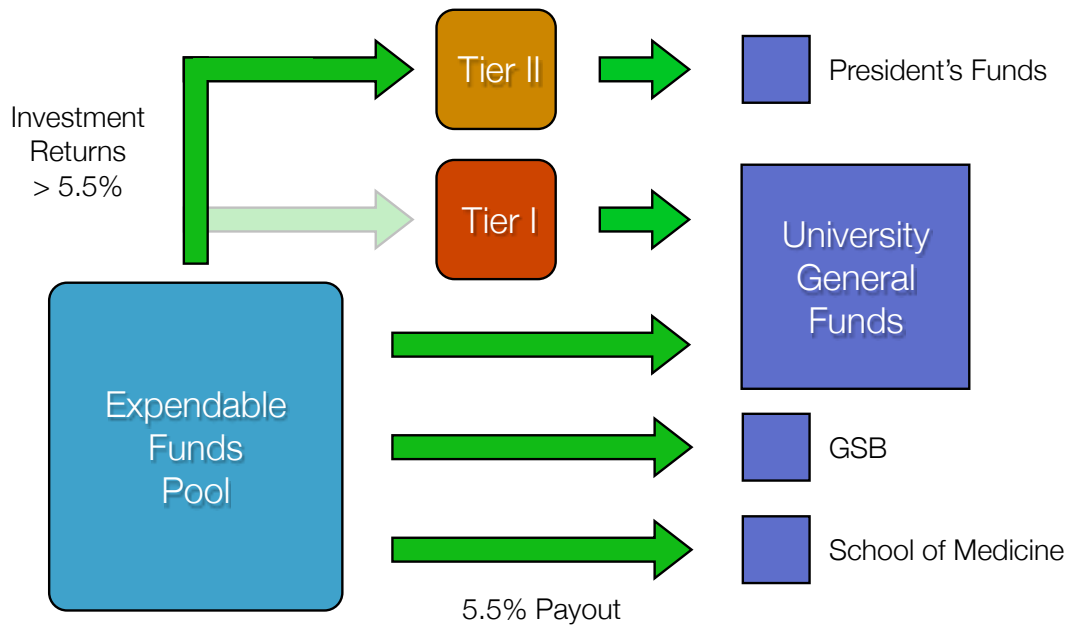
Budget Lessons

- *In good times, we need more discipline adding staff*
 - ◆ 10 year growth in faculty (except SoM) and students has been slow and relatively controlled
 - ◆ In units funded entirely through General Funds, staff growth has also been relatively slow—limited by available funds
 - ◆ Staff growth in units with significant non-GF revenue has been large and uncontrolled
 - ◆ Do we need a billeting system for staff?
- *In very bad times, moving quickly is better than “smoothing”*
 - ◆ We had option of one year of sizable cuts vs. 4-5 years of smaller cuts
 - ◆ Former yields more strategic, thoughtful reductions

Expendable Funds Buffering Policy

- Buffering policy worked well for normal investment fluctuations (including 2001-2002 downturn)
- With extreme investment losses, policy left General Funds budget exposed to large and immediate drops (>\$40M in FY10)
- *Policy needed revision*

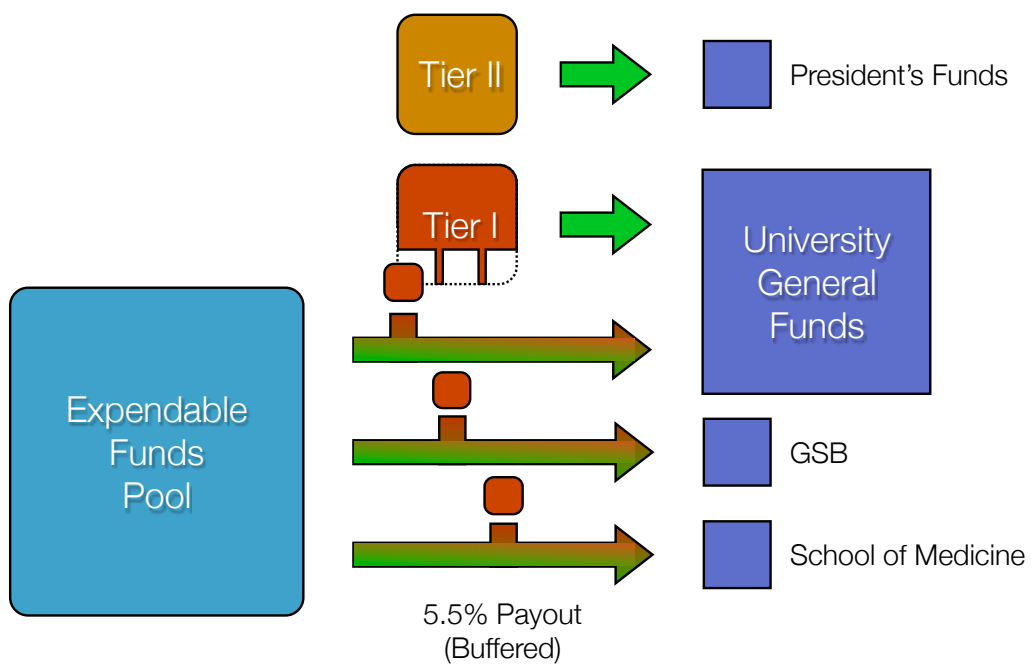
Old EFP Policy (Returns above 5.5%)



Wednesday, May 26, 2010

45

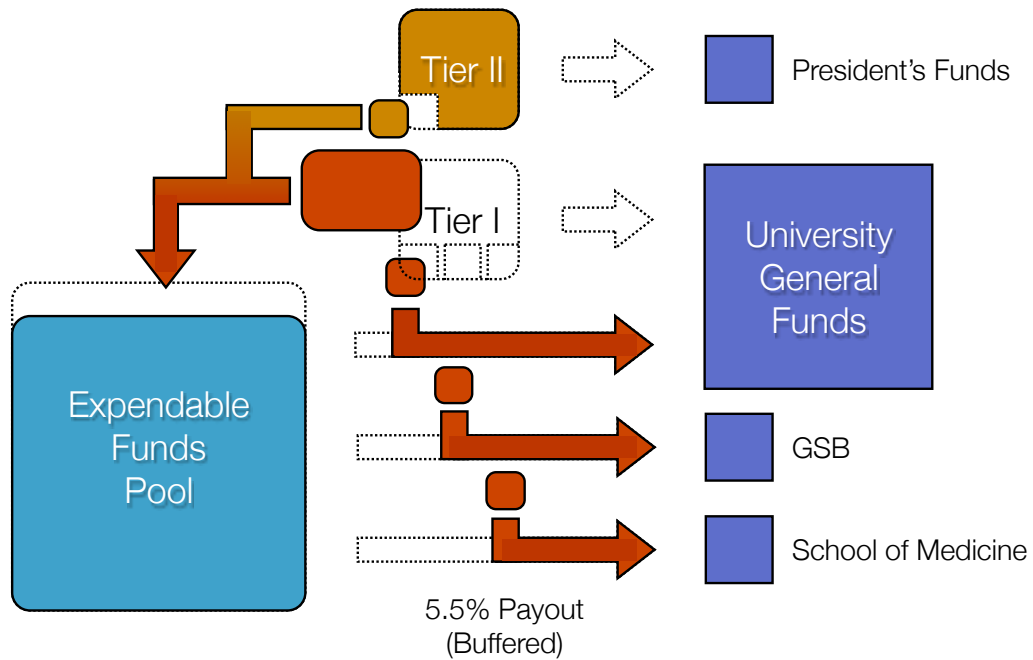
Old EFP Policy (Returns between 0% and 5.5%)



Wednesday, May 26, 2010

46

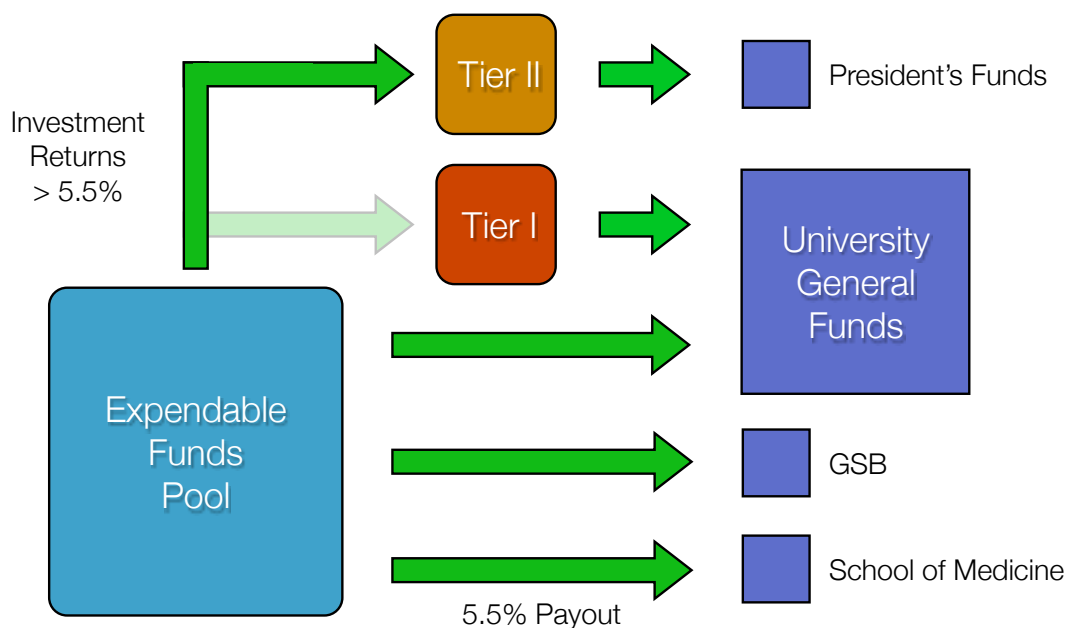
Old EFP Policy (Returns below 0%)



Wednesday, May 26, 2010

47

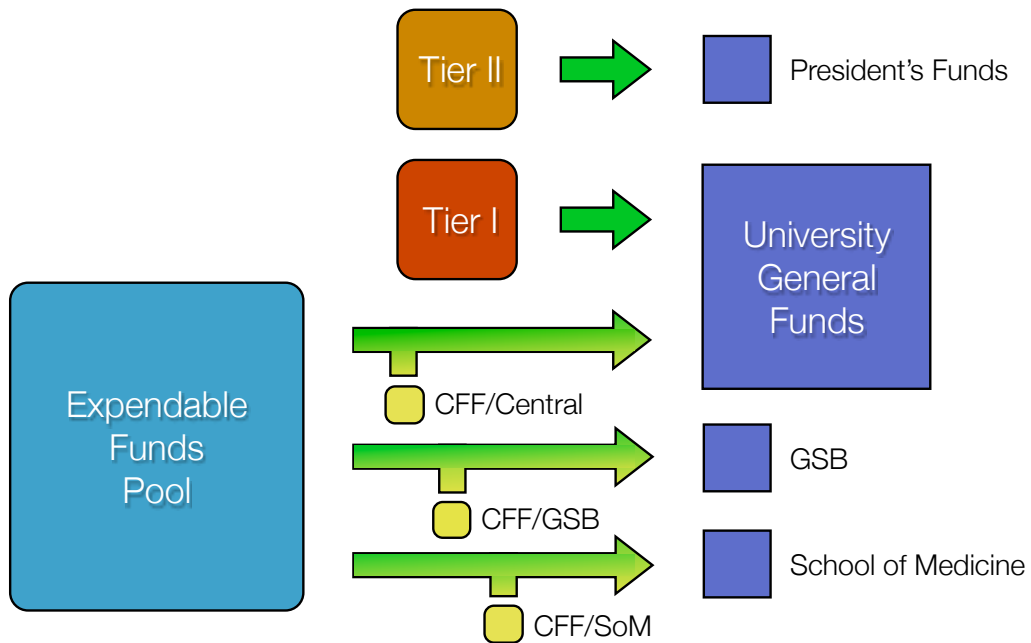
New EFP Policy (Returns above 5.5% – same as old policy)



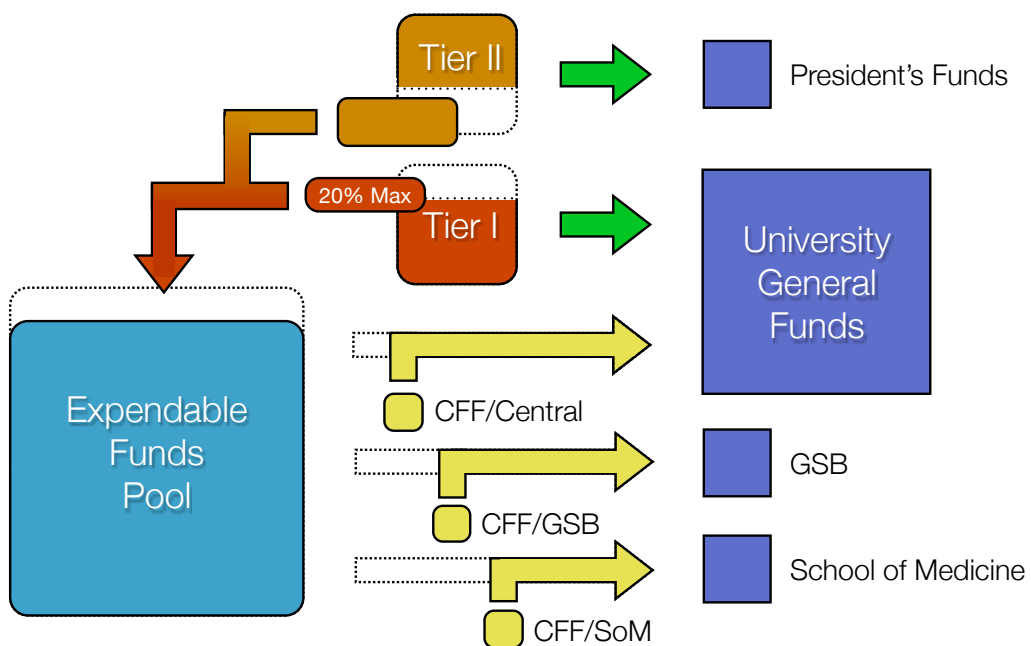
Wednesday, May 26, 2010

48

New EFP Policy (Returns between 0% and 5.5%)



New EFP Policy (Returns below 0%)



Expendable Funds Buffering Policy

- Buffering policy worked well for normal investment fluctuations (including 2001-2002 downturn)
- With extreme investment losses, policy left General Funds budget exposed to large and immediate drops (>\$40M in FY10)
- *Policy needed revision*

New policy puts more buffering risk on sources of one-time funding; provides more protection for base budget.

Endowment Lessons

- *In addition to risk profile of portfolio, more attention needs to be given to liquidity of portfolio*
 - ◆ In extreme liquidity crisis, institution can become cash starved
 - ◆ Even when there is no crisis, less than optimal investment decisions may be forced
 - ◆ Did not happen to us, thankfully, but could have
- *Did we learn that “Yale investment model” is a mistake?*

Annualized Returns (ending 6/09) vs. Indexes

	Stanford Endowment	S&P 500 (Domestic Equities)	MSCI EAFE (Foreign Equities)	MSCI REIT (Real Estate)	GSCI (Commodities)	10-year Treasuries
1-year	-25.9%	-26.2%	-31.0%	-43.7%	-59.7%	7.3%
3-year	-1.0%	-8.2%	-7.5%	-18.5%	-15.2%	8.2%
5-year	6.8%	-2.2%	2.8%	-3.0%	-3.4%	5.5%
10-year	8.9%	-2.2%	1.6%	5.3%	6.3%	5.8%
30-year	16.4%	10.8%	9.6%	3.3%	6.8%	8.2%

Wednesday, May 26, 2010

53

Endowment Lessons

- *In addition to risk profile of portfolio, more attention needs to be given to liquidity of portfolio*
 - ◆ In extreme liquidity crisis, institution can become cash starved
 - ◆ Even when there is no crisis, less than optimal investment decisions may be forced
 - ◆ Did not happen to us, thankfully, but could have
- *Did we learn that “Yale investment model” is a mistake?*

No
(though we should continually
assess mix/risk/liquidity
of portfolio)

Wednesday, May 26, 2010

54

End