The Stanford University Budget Plan 1998/99

Submitted for Action to the
Board of Trustees
June 11–12, 1998

This publication can also be found on the World Wide Web at:
http://www.stanford.edu/dept/pres-provost/budget/plans/plan99.html

Executive Summary

I am pleased to submit the 1998/99 Stanford University Budget Plan for your approval.

This Budget Plan is presented in two parts. The first is the Consolidated Budget for Operations, which includes all of Stanford's anticipated revenues and expenditures for current operations. The second is the Capital Budget, which shows the capital expenditures planned for next year. Together, these budgets reflect a University-level perspective on our programmatic plans and the supporting financial strategy for 1998/99.

For the last five years we have worked to establish a sound financial basis to support excellence in our core academic programs as well as innovation and experimentation. This Budget Plan is intended to put in place firm budgetary support for the programmatic directions that have emerged in the last few years. As such it moves a number of our most important initiatives, treated heretofore as experimental, to permanent funding.

No set of innovations is more important to Stanford's future than those that emerged from the Commission on Undergraduate Education, appointed by President Gerhard Casper in 1993. The total expenditure for these initiatives in undergraduate education is budgeted at $13.5 million, an increase of $4.3 million over last year. $3.4 million of that increase is to support the reform of the first two years of the college curriculum, known as Stanford Introductory Studies. Through long-term gift support and base funding, we will assure each member of next year's freshman class the opportunity to participate in a freshman seminar. The incremental funding allows next year's Sophomore college enrollment to double. In addition, the new Area One requirement, Introduction to the Humanities, is supported in this budget.

Incremental base budget commitments have also been made to the yield enhancement and alumni involvement activities of the Office of the Dean of Admissions, to undergraduate advising and residential education, and to the financial aid improvements approved by the Board of Trustees in February 1998.

The Stanford Graduate Fellowship program enters its second year in 1998/99 with the admission of another superb group of students. In 1998/99 the program will be supported by presidential discretionary funds but will ultimately be funded by endowment funds. This program, coupled with base commitments to supplement graduate stipends throughout the University, represents a renewed commitment to excellence in our graduate programs.

The last few years have also been devoted to improving our academic and administrative computing systems and the infrastructure to support them. Our efforts to keep pace with the increased demands for information technology are reflected in this budget. We have made a multi-year commitment to re-wire our academic buildings, plus base allocations of $1.1 million to support the network, a multi-year commitment of $400,000 to improve and maintain classroom technology, and $400,000 to the Academic Technology Specialists program. In addition, this budget funds the second phase of the replacement of our core financial accounting systems.

Even as we begin to consolidate funding for our core academic priorities, we are cognizant of the significant uncertainties that we face. We have been the beneficiary of a far more stable sponsored research environment than we dared hope for several years ago. We have benefited too from sustained strength in the financial markets and the generosity of our donors. Nonetheless, the potential for market volatility and changes in federal indirect cost recovery rules remain. Consequently, we have maintained the modest unrestricted budget base reserve, established in the 1996/97 budget, to provide a buffer against future income shortfalls. For 1998/99, this reserve is projected to be $12.2 million – less than 1% of the Consolidated Budget for Operations.

We have also worked closely with the deans over the past two years to identify funds in the schools and departments that could cover any unexpected shortfalls in research funding supporting graduate students or other short term disruptions in research activity. In general, the schools are now adequately reserved for these purposes.

Finally, we should note that Stanford has contributed to and benefited from the growth of Silicon Valley and the extraordinarily robust economy in which we operate. Yet the downside of that prosperity is more evident each day: there is increased pressure on salaries, particularly for some categories of staff; housing costs are extremely high for new faculty and staff; graduate students find it difficult to afford and, in many cases, to find housing in the area; and the cost of purchased goods and services is high. These cost pressures have been reflected in a higher inflation rate locally (4.2% in 1997) compared to the national rate (1.7% in 1997).

We have attempted to manage these pressures in several ways:

- We are targeting supplemental salary increases to those employee groups that are significantly below market, particularly in the information technology areas, where the local market for professionals is very intense.
- As the local housing market has grown tighter and more expensive for faculty and staff, we have had to supplement the Housing Assistance Program (HAP). HAP is budgeted at $3.6 million. Special assistance programs beyond HAP include relocation loans, one time supplemental payments, and other departmental support. The cost of these supplemental programs has increased from $1 million in 1991 to over $7 million in 1997.
- We are working closely and aggressively with vendors to keep increases in the cost of purchased goods and services to a minimum.
- While recognizing the effects of local inflation, we have held fast to revenue constrained budgeting for general funds. "Cost-rise," which assured units an increment for inflation, has not been reinstated. General funds allocations for all non-salary budgets remain flat in nominal terms, with each unit expected to reallocate expenses or use restricted funds to address any cost increases. This permits us to make targeted interventions rather than across the board allocations.
- We have taken steps to reconfigure and increase on-campus student housing. Because of the extremely tight graduate housing situation, we have budgeted an 8.0% increase in stipends, which will help off-campus students address rent increases. Supplemental grant and loan programs have also been established to assist the neediest students. In addition, we are beginning to plan for new graduate student housing, although, realistically, we cannot expect to open new facilities for the next two years.

CAPITAL BUDGET

The Capital Budget included in this plan is for one year, concluding the ambitious $700 million, 5-year plan that will result in the completion of earthquake repairs and seismic strengthening, the Science and Engineering Quad, the Museum, Green Library West, and virtually all of the Center for Clinical Sciences Research (CCSR). Next year's Capital Budget includes $217.8 million in projected expenditures on capital projects.

The following are the key elements of the 1998/99 Capital Budget:

- Construction Expenditures on Approved Projects – In addition to the $11.7 million for Green Library West and the $31.2 million for CCSR, projects totaling $53.3 million were previously approved, bringing the total budget for approved projects to $96.2 million.
- Infrastructure – The Capital Budget contains $49.4 million in infrastructure projects. These include renovations to the student housing system, enhancements and renovations of our utilities systems, deferred maintenance costs, information systems costs, and the Stanford Infrastructure Program, which includes landscaping, transportation, and parking projects. Infrastructure projects are funded by fees on projects, parking fees, debt, and by general funds supporting the deferred maintenance program.
- Projects in Planning – Several projects are also in the formulation stage, including the Alumni Center, approved in concept by the Board of Trustees in April 1998. These projects add $72.3 million to the 1998/99 Capital Budget.

The Capital Budget affects the Operations Budget in two direct ways: the several new facilities coming on-line next year will require $3.0 million for incremental operations, maintenance, and utility costs. We are also adding $5.1 million in incremental debt service over the projected 1997/98 actuals.

FINANCIAL OVERVIEW AND PLANNING ASSUMPTIONS

The Bottom Line – The Budget Plan projects revenues and transfers of $1.428 billion and expenses of $1.411 billion in the Consolidated Budget for Operations. The resulting surplus of approximately 1% ($16.8 million) results from the general funds surplus of $12.2 million, noted above, and an anticipated excess of restricted revenue over expense. For the fifth consecutive year, the Consolidated Budget for Operations projects a modest surplus.

Supplemental Endowment Payout for Infrastructure – The Plan assumes a 0.5% supplement to the traditional endowment target payout rate of 4.75% to help defray infrastructure costs related to earthquake repair, seismic strengthening, deferred maintenance, and information systems. To preserve the long term purchasing power of the endowment while incorporating this 0.5% supplement into the budget, the Trustees stipulated that increases in continuing costs supported by the non-formula general funds component of the Consolidated Budget be held at 1% over inflation. As noted earlier, national inflation has been running at approximately 2%; locally, however, inflation is slightly higher than 4%. We have split the difference between the two numbers and used 3% as our assumption for inflation. Our continuing general funds costs are budgeted next year to increase at 4%. Consequently, we believe this Plan operates within the Trustees' guidelines.

PRINCIPAL ASSUMPTIONS – The following are the principal assumptions used in the development of the Budget Plan:

Tuition Rate Increase	3.8%
Room and Board Rate Increase	2.8%
Staff Salary Growth	3.0%
Faculty Salary Growth	3.0%
Benefits Rates:	
Regular Benefits-Eligible Employees	25.4%
Post-Doctoral Research Affiliates	14.6%
Casual/Temporary Employees	8.4%

REQUESTED APPROVAL AND ORGANIZATION OF THIS DOCUMENT

This Budget Plan provides a University-level perspective on Stanford's programmatic and financial plans for 1998/99. We seek approval of the planning directions, the principal assumptions, and the high level supporting budgets contained here. As the year proceeds, we will make periodic reports, as necessary, on the progress of actual expenditures against budget. In addition, we will bring forward individually, for more detailed consideration, specific capital projects under normal Board guidelines.

This document is divided into four sections and three appendices. Section 1 describes the principal financial elements of the Plan, including the Consolidated Budget for Operations and the projected Statement of Activities for 1998/99. Section 2 addresses a number of programmatic issues in the academic and support areas of the University. Section 3 contains detail on the Capital Budget, and Section 4 provides a brief commentary on future budget issues. The appendices contain the individual budgets of the major academic units, detail on the Capital Budget, and supplementary financial information.

CONCLUSION

This budget is the result of a collaborative effort with the deans, other principal administrative officers, my faculty advisory colleagues, and the staff of the Budget Office. Their good work has been essential in developing our plans and the supporting materials. I look forward to their continued involvement as we implement this budget in 1998/99.

Condoleezza Rice
Provost
June, 1998

Table of Contents