Stanford University Budget Plan

2004/05

Submitted for Action to the
Board of Trustees
June 10–11, 2004

This publication can also be found on the World Wide Web at:
http://www.stanford.edu/dept/pres-provost/budget/plans/plan05.html

Executive Summary

To The Board of Trustees:

I am pleased to submit Stanford University's 2004/05 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 2004/05 Consolidated Budget for Operations reflects an anticipated surplus of $6.7 million on $2.7 billion of revenues, $2.6 billion in expenditures, and $62 million of transfers. The Consolidated Budget is shown on a modified cash basis and reflects the legal restrictions of fund accounting. The Consolidated Budget is our primary tool for managing the financial operations of the university.

General funds comprise $706 million of Stanford's Consolidated Budget. These funds can be used for any university purpose. General funds of $584 million are allocated directly by the Provost, while the remaining $122 million flow to units in accordance with formula funding agreements 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 is balanced for 2004/05.

As has been our practice in recent years, we also show a projected Statement of Activities for the university, which is displayed in the format consistent with Generally Accepted Accounting Principles (GAAP), as reflected in the university's Annual Financial Statements. Under the GAAP structure we are projecting a $3 million deficit. The difference in the two results is primarily the inclusion of non-cash items in the Statement of Activities. (These adjustments are detailed in Section 1).

The 2004/05 Capital Budget calls for $168.9 million in capital expenditures. These expenditures are in support of a three-year Capital Plan that, once fully completed, would require $976.8 million in total project expenditures.

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

A year ago, when we proposed the budget for 2003/04, Stanford had just concluded a second year of budget reductions, implemented a salary freeze across the university, and made only minimal investments in new programs and support services. Moreover, we forecasted a deficit of $19.0 million for 2003/04. It was clearly the most challenging budgetary environment we had faced since the early 1990s. Although 2004/05 was two years away at that time, we forecasted continued, albeit less severe, financial pressures. Over the summer of 2003 and into the fall, however, the university's financial picture brightened as the financial markets improved. Stanford finished the last fiscal year, ending in August 2003, with a surplus, and we are now projecting a surplus of $18.5 million in 2003/04.

As we began planning for the 2004/05 budget, we were still forecasting a modest deficit in the general funds portion of the Consolidated Budget for Operations. The projected deficit was due, in part, to our commitment to include a competitive salary program in the budget and to include funding for program and facilities commitments made several years ago. After the past two years of cuts we also recognized the need for financial capacity for important new programmatic investments.

In developing budgets for the prior two years we relied on a process in which budget reductions were identified at the school and administrative unit level. Decisions were then made, with the advice of the Provost's Budget Group, on the magnitude of cuts in each area. After two years of this unit-focused reduction process, we felt another strategy was in order. Consequently, we identified six areas that cut across organizational lines and offered the potential for cost reduction or income enhancement. They were: benefits costs, the infrastructure charge on restricted funds, residence-based student advising, graduate student housing subsidies, human resources, and technology licensing income. We recognized, however, that to implement reductions or increase income in these areas could take more than a single year, given the lead time required to study each issue and implement a change. So in order to have the capacity to balance the budget we also asked each school and administrative unit to identify potential cuts of 3% and 5%. Our goal was to minimize reductions to individual unit budgets while achieving an overall balanced general funds budget.

KEY PRIORITIES

As we worked on the university-wide structural changes and with the budget units to identify cuts, I consulted with the Provost's Budget Group to identify the most critical priorities for 2004/05. They were:

- Providing a competitive salary program for faculty and staff – our highest priority,
- Implementing a benefits package that was fiscally responsible while meeting the core needs of our people,
- Maintaining our capacity to make selective academic investments in such important areas as bioengineering and graduate student support,
- Maintaining our long-standing commitment to a financial aid program that is among the very best in the country,
- Implementing a plan to fund our physical plant renewal needs, and
- Completing—and then sustaining—Stanford's significant investment in administrative and academic systems and computing infrastructure.

The 2004/05 Budget Plan reflects considerable progress in addressing these priorities.

- Compensation – This Budget Plan includes a competitive merit salary program for faculty and staff. The program also provides special market adjustment funding for those faculty and staff groups who are below their relevant markets. We believe this program will help restore our competitive position for faculty compensation and position us at the local mid-market target for staff.

- **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 our financial aid program will address the increased need for those families whose financial circumstances do not keep pace with the cost of attending Stanford. General funds (including the Stanford Fund) supporting financial aid will increase next year by 15.7% from $25.5 million to $29.5 million. Funding for undergraduate aid from all Stanford sources will increase by 10.4% from $56.0 to $61.8 million.

- **Facilities Support** – Over the past 15 years, Stanford has made significant investments in its facilities. During this period we have largely rebuilt the campus and have substantially avoided the accumulation of deferred maintenance. To preserve this strong position, we have analyzed the on-going cost of renewing our facilities and have begun to provide incremental funds for that purpose. Next year's budget includes an increment of $1 million for planned maintenance, the first of what will likely be additional incremental allocations over the next five to ten years. We will have an extensive report on the subject at the October 2004 board meeting.

- **Systems** – For the past several years Stanford has been engaged in a major 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 implementation. We are budgeting $19.1 million for system development projects and the infrastructure to support them in next year's budget.

- **General Funds Reductions and Incremental Allocations** – As noted above, in an effort to achieve a balanced budget and provide capacity for new investment in the general funds component of the Consolidated Budget, we adopted a two part approach: university-wide structural initiatives, and unit-specific budget reductions. Each of the structural initiatives holds promise for cost reduction or revenue enhancement, although major impacts will probably take a year or two to realize. We achieved immediate savings in the off-campus graduate student housing subsidies by renegotiating leases with local apartments complexes, and have implemented a change in the funding of the Office of Technology Licensing. We will also propose a modification in the infrastructure charge on restricted funds. The other areas are still under study, and several, such as residence-based advising and staff benefits, will require additional faculty and administrative consultation. To balance the budget and make needed investments, we relied again this year on unit-based cuts within the general funds portion of the Consolidated Budget. Specifically, we are reducing base budget funding allocations to academic and administrative units by $5.3 million. However, we are also allocating $13.1 million for incremental programs and support. On a net basis, after accounting for the salary and benefit program adjustment and non-salary inflation, the School of Humanities and Sciences will receive the largest increase at $2 million, $1 million will go to raise the planned maintenance budget for facilities, $1.3 million will provide increased support to Development and the Alumni Association to enhance further the university's fundraising and alumni relations capacity, and a $700,000 increase will go to the Libraries. (Details on the allocations are included in Section 1.)

CONSOLIDATED BUDGET FOR OPERATIONS

The table on page vi shows the main revenue and expense line items for 2004/05 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.

PROJECTED CONSOLIDATED BUDGET FOR OPERATIONS, 2004/05

[IN MILLIONS OF DOLLARS]

2002/03 Actuals	20003/04 Projected Actuals		2004/05 Projected Consolidated Budget	2003/04 to 2004/05 Percent Increase
		Revenues and Other Additions		
434.0	467.0	Student Income	491.4	5.2%
860.3	916.0	Sponsored Research Support	964.8	5.3%
227.6	249.6	Health Care Services	274.5	10.0%
112.6	115.0	Expendable Gifts in Support of Operations	120.0	4.3%
507.8	480.8	Investment Income	506.4	5.3%
227.9	241.9	Special Program Fees and Other Income	248.0	2.5%
54.2	50.0	Net Assets Released from Restrictions	50.0	0.0%
2,424.4	2,520.3	Total Revenues	2,655.1	5.3%
		Expenses		
1,175.0	1,282.0	Salaries and Benefits	1,361.1	6.2%
219.7	228.0	SLAC	260.0	14.0%
123.5	132.0	Financial Aid	141.9	7.5%
723.3	798.2	Other Operating Expenses	823.8	3.2%
2,241.5	2,440.2	Total Expenses	2,586.8	6.0%
182.9	80.1	Revenues less Expenses	68.3	
(113.4)	(61.6)	Transfers	(61.6)	
69.5	18.5	Surplus/(Deficit)	6.7	

REVENUE

Student Income – This figure is the sum of tuition and room and board income. Tuition is budgeted to grow 5.7% over the projected 2003/04 actuals, as the result of a 4.5% increase in the undergraduate tuition rate, a 50% increase in the terminal graduate registration rate, and a modest increase in the number of Masters students. Room and board income is projected to increase by 3.3%, due to a 4.7% increase in the standard undergraduate room and board rate and a reduction in off-campus subsidized housing for graduate students.

Sponsored Research – The 5.3% growth in sponsored research is driven by a 14% increase at SLAC. Direct cost growth in the rest of the university is expected to be 3.2%, which reflects a 5.5% growth rate before the impact of a significant reduction in funding for the Gravity Probe B project, which was successfully launched on April 20th. Indirect cost recovery is expected to be flat in 2004/05, due an anticipated reduction in the indirect cost rate.

Health Care Services – At a 10% rate of increase, this area is the fastest growing revenue source in the Consolidated Budget. It is dominated by $203.8 million from the clinical operations of the School of Medicine, which are projected to increase by 11.8% in 2004/05 due to the planned recruitment of Medical Center line faculty and clinician educators.

Expendable Gifts/Net Assets Released from Restrictions – The Office of Development anticipates that revenue from non-capital gifts available for current expenses will grow by 4.3% in 2004/05 to $120 million. (This line does not include gifts to endowment or for capital projects.) In addition, net assets released from restrictions—payments made on prior year gift pledges and prior year gifts released from restrictions—are 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). Overall, investment income is expected to increase by 5.3%. Income from endowment is expected to increase next year by 5.1%, including payout from $250 million in projected new gifts to the endowment. The spending rates approved by the Board of Trustees in February 2004 yield a smoothed payout rate of 4.67% compared to our target rate of 5%. EFP income is expected to grow approximately 6% over the projected year-end actuals.

Expense

Salaries and Benefits – We anticipate total salaries and benefits expense to increase 6.2% over the projected year-end actuals. Academic salaries are expected to increase by 6.0%, due to a competitive salary program, a 6.5% increase for RA/TA salaries, and a 10% growth in clinical academic salaries (driven by both headcount increases and a competitive salary program). Staff salary growth is expected to be 4.5% as a result of our merit program and a slight increase in staff headcount. Benefits and other non-salary compensation expense are expected to increase by 8.3%, due principally to an increase in the benefits rate from 29.0% to 30.5%. This increase is the result of continued growth in health insurance costs. For 2004/05, health insurance costs are expected to rise by 15%.

Other Operating Expenses – This line item is composed principally of internal debt service, 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 3.2% for these items.

CAPITAL BUDGET AND PLAN

The Capital Budget for 2004/05 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 not be completed by, 2004/05, as well as projects that will be started during the three-year period from 2004/05 to 2006/07. Since some projects in the plan will not be complete by the end of 2006/07, 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 2004/05.

Capital Plan, 2004/05 – 2006/07

This year's Capital Plan has been significantly affected by affordability constraints, debt capacity limits, and challenging fundraising prospects. The three-year Capital Plan forecasts $976.8 million in construction and infrastructure projects and programs that are currently underway or planned to begin over the next three years. This is an increase over last year's $837 million due to the inclusion of several projects from the ambitious Science, Engineering and Medicine Campus (SEMC) plan.

Although the $976.8 million plan presents a 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 in the envisioned timeframe or at the currently projected scale. Nevertheless, 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. It should be noted that many of the projects assume substantial amounts of unidentified gift or reserve funding. These projects will only move forward if and when the stated funding goal is met with gifts or school reserves in hand.

The three-year Capital Plan includes 29 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 2009/10. The three-year plan will be funded from $110 million in current funds, $134 million in gifts and pledges, $68 million in auxiliary and service center debt, $107 million in academic debt, and $558 million in other resources yet to be identified, including gift funds not yet raised.

The three-year plan includes:

- $257 million for projects currently in Design and Construction,
- $595 million for Forecasted Projects, those we anticipate presenting to the Trustees for approval during the three-year period, and
- $125 million for Infrastructure Projects and Programs.

If all the projects in the plan are completed, the incremental annual internal debt service will be $15.1 million, of which $6.1 million will be serviced by auxiliary or service center activities, $7.4 million will be paid for by unrestricted funds, and $1.6 million will be paid by the formula schools of Business and Medicine. Incremental O&M costs will total $12.9 million per year, of which $7.5 million will be paid from unrestricted funds.

CAPITAL BUDGET, 2004/05

The Capital Budget for 2004/05 represents $168.9 million of capital expenditures for the upcoming year. Most of these expenditures reflect only a portion of the total costs of the capital projects, as most projects have a duration exceeding one year. We categorize the projects in the 2004/05 Capital Budget in two ways:

- By Use: 37% for academic/research facilities; 26% for infrastructure; 20% for athletics and student activities; and the remaining 17% for housing and academic support, and
- By Project Type: 42% for new projects (Law Student Housing, Varian 2, and the Arrillaga Family Recreation Center); 32% for renovation projects (Maples Pavilion); and 26% for infrastructure programs.

The 2004/05 Consolidated Budget for Operations includes incremental internal debt service and O&M expenses for projects completing in 2004/05 and for projects completed in 2003/04 that were operational for less than twelve months. The projected impact of the additional internal debt service and O&M expenses is $2.4 million and $792,000, respectively.

REQUESTED APPROVAL AND ORGANIZATION OF THIS DOCUMENT

This Budget Plan provides a university-level perspective on Stanford's programmatic and financial plans for 2004/05. We seek approval of the planning directions, the principal assumptions, and the high-level supporting budgets contained in the plan. As the year unfolds, we will make periodic variance 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 2004/05. Section 2 addresses program issues in the academic areas of the university. Section 3 presents the Capital Plan for 2004/05– 2006/07 and the Capital Budget for 2004/05. The appendices include budgets for the major academic units, along with supplementary financial information.

CONCLUSION

Although Stanford's financial outlook has improved markedly over the past year, we did not take this welcome development as license to stop looking for budget savings. For the third year in a row, we asked the schools and administrative units to propose possible budget reductions, many of which were then adopted. But unlike last year, most of the dollars freed up were used to finance important new university priorities rather than to offset a shortfall in revenue. Such internal reallocation is essential to maintaining a vibrant university with adequate resources to pursue new academic directions as they present themselves. Still, I recognize that identifying areas to reduce, following on the heels of two years of prior reductions, is a demanding task that places great pressure on both the leadership and the budget offices in the schools and administrative units. Once again, everyone involved in the process approached the effort with energy and equanimity. I thank our outstanding leaders—Deans, Vice Presidents, Vice Provosts and Directors—as well as their excellent budget officers, for all their hard work on this year's budget. Your efforts will result in a stronger university.

This year's budget process also demanded more of the Provost's Budget Group, thanks to our decision to examine, in addition to unit-based cuts, a set of more global, cross-cutting expense reductions and revenue enhancements. Although many of these efforts are ongoing, I am enthusiastic about the potential savings that will result from this additional work: it will serve us in good stead both in the current budget year and into the future. The Budget Group this year consisted of Artie Bienenstock, Stephen Hinton, Randy Livingston, Kären Nagy, Channing Robertson, Bob Simoni, Dana Shelley, Buzz Thompson, and Tim Warner. This is one of the hardest working committees in the university and we are all in their debt.

Each year the Capital Planning Group tackles a constraint-satisfaction problem of daunting complexity. After surveying the host of building needs and desires presented by the schools, this group must design a plan that satisfies the multiple constraints imposed by the General Use Permit, our limited debt capacity, the reality of gift prospects, the impact on General Funds, and the University's academic priorities. This process was led by Margaret Dyer-Chamberlain and Megan Davis. The remaining members of the Capital Planning Group were Charles Carter, Chris Christofferson, Jack Cleary, Stephanie Kalfayan, Howard Leung, Randy Livingston, Sandy Louie, Tim Portwood, Bob Reidy, Gary Rotzin, Craig Tanaka, Jeff Wachtel, and Tim Warner. I am grateful to this group, particularly to Margaret and Megan, for their insight and advice.

Finally, let me again thank Tim Warner and Bob Reidy for overseeing these two efforts, and Dana Shelley and Steve Olson for conjuring the behind-the-scenes magic required to bring the process to a close.

Thank you all,

John W. Etchemendy
Provost
June 2004

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Section 1
Financial Overview

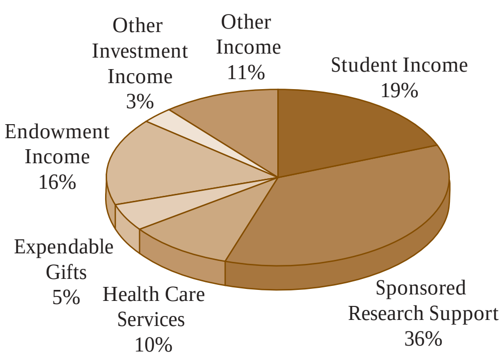
In this section we will review the details of the 2004/05 Consolidated Budget for Operations, discuss the impact of the Capital Budget on the Consolidated Budget, and present a projected Statement of Activities.

CONSOLIDATED BUDGET FOR OPERATIONS

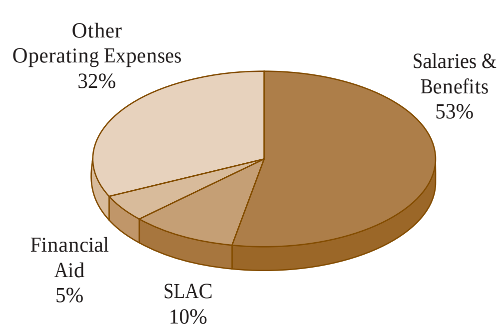
The Consolidated Budget for Operations provides a management oriented overview of all non-capital revenues and expenditures for Stanford University (excluding the hospitals) in the fiscal year. It is based on forecasts from the schools and the administrative areas. These forecasts are then merged with the general funds budget forecast and adjusted by the University Budget Office for consistency. The Consolidated Budget is shown on a modified cash basis and reflects the legal restrictions of fund accounting. Unlike the Statement of Activities in the Annual Report, which is presented in accordance with Generally Accepted Accounting Principles (GAAP), the Consolidated Budget for Operations more closely reflects the uses and movements of funds as managed internally by schools and departments. It reflects capital equipment expenditures (which reduce available fund balances) rather than reflecting only the current year's depreciation charge. Also, it reflects benefits as they are charged through the benefits rate burden rather than the actual payments to providers outside the university. The Consolidated Budget only shows those revenues and expenses available for current operations. It does not include plant funds, student loan funds, or endowment principal funds, although it does reflect endowment income. The table on the next page shows the projected consolidated revenues and expenses for 2004/05. For comparison purposes, this table also shows the actual revenues and expenses for 2002/03 and both the budget and the year-end projections for the current fiscal year, 2003/04. In addition, definitions of key terms are provided on page 3.

The 2004/05 Consolidated Budget for Operations shows total revenues of $2,655.1 million and expenses of $2,586.8 million, resulting in excess revenue over expense of $68.3 million. However, after estimated transfers, primarily to plant funds, the Consolidated Budget shows a slight surplus of $6.7 million.

2004/05 CONSOLIDATED REVENUES: $2,655.1M [1]



2004/05 CONSOLIDATED EXPENSES: $2,586.8M



[1] Net Revenues after Transfers: $2,593.5M

Projected Consolidated Budget for Operations, 2004/05

[in millions of dollars]

2002/03 Actuals	2003/04 Budget June 2003	2003/04 Projected Actuals		General Funds	Designated	Restricted	Grants and Contracts	Auxiliary Activities	Total Consolidated Budget
			Revenues and Other Additions						
			Student Income:						
185.3	191.9	193.4	Undergraduate Programs	201.7					201.7
166.6	185.0	183.3	Graduate Programs	196.4					196.4
82.1	92.4	90.3	Room and Board					93.3	93.3
434.0	469.3	467.0	Total Student Income	398.1				93.3	491.4
			Sponsored Research Support:						
496.7	505.9	529.0	Direct Costs—University				546.1		546.1
219.7	223.0	228.0	Direct Costs—SLAC				260.0		260.0
143.9	156.7	159.0	Indirect Costs	158.7					158.7
860.3	885.6	916.0	Total Sponsored Research Support	158.7			806.1		964.8
227.6	225.8	249.6	Health Care Services	5.7	233.1			35.7	274.5
112.6	105.0	115.0	Expendable Gifts In Support of Operations	2.0		118.0			120.0
			Investment Income:						
391.1	378.5	404.2	Endowment Income	90.2		334.6			424.8
116.7	74.7	76.6	Other Investment Income	27.2	48.5	5.5	0.2	0.2	81.6
507.8	453.2	480.8	Total Investment Income	117.4	48.5	340.1	0.2	0.2	506.4
227.9	233.7	241.9	Special Program Fees and Other Income	23.8	115.8	(1.9)	0.3	110.0	248.0
54.2	50.0	50.0	Net Assets Released from Restrictions			50.0			50.0
2,424.4	2,422.6	2,520.3	Total Revenues	705.7	397.4	506.2	806.6	239.2	2,655.1
			Expenses						
1,175.0	1,233.0	1,282.0	Salaries and Benefits	375.9	303.7	219.8	292.8	168.9	1,361.1
219.7	223.0	228.0	SLAC				260.0		260.0
123.5	123.6	132.0	Financial Aid	29.6	1.5	100.8	10.0		141.9
723.3	801.4	798.2	Other Operating Expenses	255.2	136.0	116.7	244.7	71.2	823.8
2,241.5	2,381.0	2,440.2	Total Expenses	660.7	441.2	437.3	807.5	240.1	2,586.8
182.9	41.6	80.1	Revenues less Expenses	45.0	(43.8)	68.9	(0.9)	(0.9)	68.3
			Transfers						
(22.0)	(6.0)	(15.0)	Additions to Funds Functioning as Endowment		(5.0)	(10.0)			(15.0)
(91.4)	(54.6)	(46.6)	Transfer to Plant/Student Loan	(10.0)	(20.0)	(16.6)			(46.6)
			Other Transfers	(34.5)	54.5	(20.0)			
(113.4)	(60.6)	(61.6)	Total Transfers	(44.5)	29.5	(46.6)			(61.6)
69.5	(19.0)	18.5	Revenues less Expenses and Transfers	0.5	(14.3)	22.3	(0.9)	(0.9)	6.7
			Beginning Operating Equity	10.3	345.4	578.8	35.0	22.2	991.7
			Ending Operating Equity	10.8	331.1	601.1	34.1	21.3	998.4

Total revenues in 2004/05 are projected to increase 5.3% over the expected 2003/04 level. This growth is an improvement over the 4.0% increase from 2002/03 to projected 2003/04 level and is aided by a strong growth in the endowment market value. Total expenses are expected to grow by 6.0% over the estimated year-end results for 2003/04. The increase is driven by a normal salary program, a second year of substantial increases in benefits costs, and increased demand for financial aid.

To explain 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), 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 5.2% in 2004/05.

Tuition – The general tuition rate increase for 2004/05, which was approved by the Trustees in February, is 4.5%, the lowest rate of increase in five years. 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 and Law. The School of Medicine will increase its tuition by 4.6%, and the Graduate School of Business (GSB) will increase the rate for the MBA program by 4.8%. In addition, the terminal graduate registration (TGR) rate, for which students are eligible after completing 135 units of coursework, will be increased by 50%, concluding a two-year plan to bring Stanford's rate to a level comparable with those of its peers. A comparative study with Stanford's peers revealed that Stanford's TGR rate was the lowest in its peer group. A higher TGR rate encourages timely completion of graduate degree programs, in addition to generating revenue.

Tuition revenue from undergraduate programs is expected to grow by 4.3%, slightly less than the approved increase in tuition due to expected variations in enrollment. Conversely, graduate program revenue is expected to increase 7.1%, which includes the higher

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.

Restricted Funds: Includes expendable and endowment income 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 GAAP, 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. When the restrictions are released, these funds become available for use and are included as part of the Consolidated Budget on the line Net Assets Released from Restrictions. These funds include cash payments on pledges and funds transferred from pending funds to gift funds.

Financial Aid: Includes expenses for undergraduate and graduate student aid. Student stipends and tuition allowance are not considered to be financial aid and are included in other lines 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.

increases for the MBA program and the TGR rate, as well as the assumption of additional Masters student enrollment in the Schools of Engineering and Education.

Room and Board – In February, the Trustees approved a combined room and board rate increase of 4.7% for 2004/05. The room rate will increase by 6.1% and the board rate by 3.25%. The 2004/05 recommended increases in room and board rates were developed while taking into account numerous Residential and Dining Enterprises (R&DE) guiding principles and operational goals. These include sustaining operations with a reserve-to-expense ratio of at least 2.0%, continuing to build an asset renewal/preservation program that will annually fund building infrastructure projects and improvements, completing life safety and seismic projects as part of the ongoing capital improvement program, and ensuring that students receive extraordinary services that are provided in a fiscally responsible manner. Overall room and board revenuewill grow by only 3.3%, despite the larger approved increase in room and board rates. This is due primarily to a reduction in revenue associated with off-campus subsidies for graduate student housing as the need for these subsidies has decreased.

Sponsored Research Support and Indirect Cost Recovery

The budget for total sponsored research is expected to be $964.8 million in 2004/05, or 36% 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 ($546.1 million for university research and $260.0 million for SLAC), as well as reimbursement for the indirect costs ($158.7 million) incurred by the university in support of sponsored activities.

University direct costs are up approximately 6.5% in the current year and are expected to grow 5.2% in 2004/05. However, overall, we are budgeting only a 3.2% increase in university direct costs due to an expected loss in research dollars associated with the ramping down of the Gravity Probe B project.

Total direct costs for SLAC in 2004/05 are expected to increase substantially compared to 2003/04. Funding from the Department of Energy (DOE), which still provides almost all of the funding for SLAC, is expected to increase from $223 million in the current year to $251 million in 2004/05, including $54 million for the construction of the Linac Coherent Light Source (LCLS) project. LCLS will be the world's first x-ray free electron laser. Funding from other sponsors is also expected to increase in 2004/05 with the completion of the joint NIH/DOE project SPEAR3. Only funding for the High Energy Physics area of SLAC is expected to be lower in 2004/05.

The university is in the process of negotiating new predetermined indirect cost rates for 2004/05 and 2005/06. We expect the 2004/05 rate to be somewhat lower than the current year's rate of 60%. As a result, total indirect cost recovery in 2004/05 is expected to remain flat at $159 million.

Health Care Services

Health Care Services income is budgeted to be $274.5 million in 2004/05. This is a 10.0% increase over the projection for 2003/04. It includes $203.8 million paid to the Medical School by Stanford Hospital and Clinics and Lucile Packard Children's Hospital related to physician services of its faculty. It also includes payments of $13.0 million by the Veterans Administration Hospital and the Santa Clara Valley Medical Center. Other components include $4.7 million of clinical revenue and $24.4 million of payments to the Medical School for rent, use of the library, blood products, and research support. 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 $28.6 million.

Expendable Gifts

Expendable gift income is expected to total $120 million in 2004/05. Expendable gifts are those that are immediately available for purposes specified by the donor. They do 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 before falling off to $104.3 million in 2001/02. The estimate for 2004/05 represents a continued but moderate growth in new expendable gifts.

Investment Income

Endowment Income – Endowment income in 2004/05 is expected to be $424.8 million, a 5.1% increase over 2003/04. The merged endowment pool has enjoyed a strong gain in its market value over the past year as investment markets have improved along with the economy as a whole and is the driver for the strong increase in endowment income.

The estimate of endowment payout from the merged endowment pools 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 to be a weighted average of the current year's payout and the target rate. The smoothed payout rate trends up when the market declines and down when the market value increases. The target payout rate is 5.0%, and the smoothed payout rate projected for 2004/05 is 4.67%.

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 endowment 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. Gifts to endowment dropped substantially in 2000/01 but have been increasing in each subsequent year and are expected to reach a new high of $250 million in 2004/05.

Of the total endowment income, only $90.2 million, or 21.2%, 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 not expected to increase over the 2003/04 unrestricted endowment income. While the portion of unrestricted endowment income generated from the merged endowment pool is expected to be up 5.6%, the increase is offset by a comparable decrease in income from the Stanford lands.

Other Investment Income – Other investment income consists of four main sources: the payout on the expendable funds pool (EFP), income earned on unexpended endowment payout, income on the Stanford Housing Assistance Center portfolio, and investment income supporting the Stanford Management Company. The largest of these sources is the EFP, the investment pool for non-endowment funds. The EFP comprises the university's general operating funds, non-government grants, 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 fund balance of $1.1 billion. The EFP is invested approximately 87.5% in the merged endowment pool and 12.5% in money market instruments. An additional $200 million in unspent endowment payout, formerly invested in the EFP and now segregated in the endowment income funds pool (EIFP), is invested entirely in money market instruments.

Total other investment income is budgeted to increase 6.5% to $81.6 million in 2004/05. The amount from the EFP and the newly segregated EIFP is projected to increase 10.0% in 2004/05 as a result of a 2.0% assumed increase in the size of the pools as well as a doubling in the expected money market rate of return on the EIFP. Income on the Stanford Housing Assistance Center portfolio and investment income supporting the Stanford Management Company are projected to increase by an inflationary rate of 2.5%.

Special Program Fees and Other Income

This category includes the revenues from several different types of activities. The first is a variety of special programs such as technology licensing income, conference and symposium revenue, fees from the executive education programs in the Graduate School of Business and the Stanford Center for Professional Development, fees from travel/study programs, and revenues from corporate affiliates, mostly in the Schools of Earth Sciences and Engineering.

Another major component of this category is the revenue from auxiliary activities, excluding student room and board fees. This includes revenues from conference activity, concessions, rent, 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.

Total special program fees and other income are budgeted at $248.0 million in 2004/05, an inflationary increase of 2.5% over the expected level in 2003/04.

Net Assets Released from Restrictions

This represents the funds previously classified as temporarily restricted that will become available for spending as specific restrictions are satisfied. These include cash payments on pledges as well as pending gifts whose designation has been determined. In

2004/05, 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 being spent 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 – The 2004/05 Budget Plan includes a competitive merit salary program for faculty and staff following a freeze on merit increases for both groups in 2003/04. The program also provides special market adjustment funding for those faculty and staff groups that are below their relevant markets. The goal is to set faculty salaries at a level that will maintain Stanford's competitive position both nationally and internationally for the very best faculty. For staff, the salary program is designed to target salaries in the mid-range of the local employment market.

The recommendation for faculty salary increases is based on a review of data supporting particular recommendations from each school, internal comparisons, comparisons with peer institutions using data that are publicly available, and consideration of available resources. Based on this analysis, the general salary program increase in 2004/05 for faculty salaries is 3.5%. Added to this will be targeted increases to address equity and retention issues. Total academic salaries, which include faculty, lecturers, research and teaching assistants, and other academic salaries, are projected to grow by 6.0% in 2004/05, driven by the faculty salary program, a 6.5% increase in research and teaching assistant salaries, a 10% increase in clinical academic salaries, and modest headcount growth.

Staff salary expenditures are expected to increase by 4.5% as a result of our merit program and a slight increase in headcount. Fortunately, the freeze on increases to base salaries of non-bargaining unit employees in the current year did not adversely impact Stanford's market position. Faced with the same economic conditions, other employers with whom we compete for talented staff implemented similar cost control measures. The approved staff salary program for 2004/05 is expected to allow the university to maintain its desired position in the local market. The program authorizes base merit increases, targeted funding for specific job groups that lag the market by 10% or more, and non-base performance bonus/incentive programs equal to 1.5% of each unit's approved salary base. Taken together, the 2004/05 authorizations for central and local funding offer management substantial flexibility to reward top performers, to recognize differences in individual performance, and to address the documented cases where pay for specific jobs lags the overall market.

Fringe Benefits – Of Stanford's four fringe benefits rates, two will increase from 2003/04 to 2004/05, and two will decline. The rate for regular benefits-eligible employees, which covers most university employees and comprises most of Stanford's benefits costs, will rise by 1.5 percentage points, from 29.0% of applicable salaries in 2003/04 to 30.5% in 2004/05.

The increase in the regular benefits-eligible rate is mainly due to two factors: the continuing rise in health care costs (which will contribute 0.4 points to the increase), and the carry-forward created by Stanford's under-recovery of costs in 2001/02 and 2002/03 (0.7 points). Retirement programs (0.3 points), unemployment insurance (0.3 points), and workers' compensation (0.2 points) will also contribute to the increase, partially offset by reductions in miscellaneous programs such as staff development and severance.

Overall, the cost of insurance programs is expected to increase by 10.0%. Health insurance premiums are continuing to increase at double-digit rates, both for current employees and for retirees, despite the university's efforts to control costs through plan design and negotiation with providers. The cost of medical insurance for current employees is expected to increase 15.4%, but, as Schedule 13 illustrates, the costs of the retiree medical plan charged to the benefits rate are expected to decline by nearly 10%, due to an adjustment in the accounting treatment of Stanford's liability. Other insurance programs, including workers' compensation, unemployment, and group life, will need to be funded in 2004/05 after many years in which the earnings of the university's self-insurance reserves were sufficient to pay the claims costs, which were, therefore, not charged to the fringe benefits pool.

The increase in the cost of retirement programs from budgeted 2003/04 to proposed 2004/05 is due to the need to fund Stanford's defined-benefit plan (Stanford Retirement Annuity Plan) for the first time in several years.

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. Total costs for regular benefits-eligible employees were under-recovered in 2001/02 by about $18 million. Ordinarily, the entire amount would become a part of the cost pool to be recovered in 2003/04. However, given the magnitude of the carry-forward, the university decided to spread the cost out over three years, from 2003/04 through 2005/06. The under-recovery in 2002/03 was even higher, at $22.4 million, and is also being spread over three years, from 2004/05 through 2006/07. The result is that the carry-forward amount in the regular benefits-eligible pool will be about $7 million higher in 2004/05 than it is in 2003/04, adding 0.7 points to the regular benefits-eligible rate.

The benefits rate for postdoctoral research affiliates will also increase in the coming year, from 18.7% to 19.1%. This is due in large part to rising medical costs, as discussed above. The rate for contingent (casual or temporary) employees will decline from 9.1% to 8.9%, due to a reduction in the carry-forward from prior years.

The rate for graduate teaching and research assistants, a new category to the pool in 2002/03, will decline slightly, from 3.5% to 3.4%. 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.

Total costs in the benefits pool are budgeted to increase 7.2% from negotiated 2003/04 costs.

The negotiated 2003/04 and the provisional 2004/05 fringe benefits rates are as follows:

Fringe Benefits Rates

	2003/04 Negotiated Budget	2004/05 Provisional Rates
Regular Benefits-Eligible Employees	29.0%	30.5%
Postdoctoral Research Affiliates	18.7%	19.1%
Casual/Temporary Employees	9.1%	8.9%
Graduate RAs and TAs	3.5%	3.4%
Other Students	0.0%	0.0%
Average Blended Rate	26.4%	27.6%
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 2004/05. 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 $141.9 million on student financial aid for undergraduate and graduate students, $29.6 million of which will come from general funds. As the table on the following page indicates, designated and restricted funds ($102.3 million) and grants and contracts ($10.0 million) will support the remainder. The total financial aid numbers are 7.5% above the projected total for 2003/04. 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 and the expected increase in graduate student enrollment.

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 2004/05, Stanford students will receive $75.2 million in need-based scholarships, of which $61.8 million will be from Stanford resources. The remaining $13.4 million will come from government and outside awards. The following sources support Stanford's $61.8 million commitment:

- General funds will cover $20.1 million, an increase of 36.8% over 2003/04 and the highest level of general funds support ever. This sizeable jump in general funds support, which provides for all unmet need, is due to a combination of the increase in the student budget, another expected jump in the number of students on aid, and the failure of other sources of financial aid support to keep pace with the overall growth in total aggregate need. Stanford-funded scholarship aid supported by general funds decreased to $4.6 million in 2000/01 due to the success of Stanford's fundraising, the tremendous growth in investment returns in the late 1990s, and the extraordinary strength in the economy overall. At that time, the number of students on aid had dropped to a low of 2,516. In 2004/05, 2,990 students are projected to receive need-based scholarship aid.

2004/05 Financial Aid and Other Graduate Student Support from Stanford Resources[1]

[IN MILLIONS OF DOLLARS]

Projected 2004 Year-End		General Funds	Designated and Restricted	Grants & Contracts	Total
	Student Financial Aid				
56.0	Undergraduate	20.1	41.7		61.8
13.1	Undergraduate Athletic		14.1		14.1
62.9	Graduate	9.5	46.5	10.0	66.0
132.0	Total	29.6	102.3	10.0	141.9
	Other Graduate Student Support				
63.5	Stipends	7.4	33.7	26.2	67.3
43.8	Tuition Allowance	26.0	4.7	15.0	45.7
66.2	RA and TA Salaries	8.7	19.5	42.3	70.5
173.5	Total	42.1	57.9	83.5	183.5
305.5	Total Student Support	71.7	160.2	93.5	325.4

[1] Excludes postdoctoral salaries

This dramatic increase in the number of students on aid is the result of the decline in the economy and an increasingly diverse undergraduate student population. Record numbers of all minority groups are enrolled in 2003/04 and together represent 48.9% of the total undergraduate student body.

- Restricted income will provide $32.3 million, and
- The Stanford Fund will provide $9.4 million.

Stanford restricted funding, including endowment income and the Stanford Fund, will contribute a little more than 55% 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, the overall need for financial aid has grown substantially faster than the available restricted funds. Nonetheless, we are anticipating that income from both existing and new gifts to endowment will increase 6.3% after a sluggish year in 2003/04.

Athletic scholarships, which are not need-based, will be awarded to undergraduate students in the amount of $14.1 million, an increase that reflects the cost of tuition and nine new scholarships.

The table on the following page shows the detail of undergraduate need-based scholarship aid. 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 expected to total $249.5 million in 2004/05. As the table above indicates, this includes the tuition component of fellowships in the amount of $66.0 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 $183.5 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 Expenses line of the Consolidated Budget for Operations on page 2.

The minimum rate for RA and TA salaries and stipends will increase by 6.5% in 2004/05; tuition allowance expense is expected to increase by 4.5%, the rate of increase for general graduate tuition.

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. These budget expenditures make up one-third of the total expenses of the Consolidated Budget and are projected to increase by 3.2% to $823.8 million in 2004/05. The principal components include materials

FINANCIAL AID AWARDED TO UNDERGRADUATES WHO RECEIVE NEED-BASED SCHOLARSHIP AID

[IN MILLIONS OF DOLLARS]

Source of Aid	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Projected	2004/2005 Budget
Restricted	20.2	25.9	26.5	29.1	30.5	32.3
Stanford Fund/Presidential funds	7.8	11.5	9.3	9.5	10.8	9.4
General Funds	7.9	4.6	10.4	13.5	14.7	20.1
Subtotal Stanford Funded Scholarship Aid	35.9	42.0	46.2	52.1	56.0	61.8
Govt. and Outside Awards	10.1	10.6	12.3	12.4	13.8	13.4
Total Undergraduate Scholarship Aid	46.0	52.6	58.6	64.5	69.8	75.2
General Funds as a Share of Total Aid	17%	9%	18%	21%	21%	27%
General Funds and Stanford Fund as a Share of Total Aid	34%	31%	34%	36%	37%	39%
Restricted Funds as a Share of Total Aid	44%	49%	45%	45%	44%	43%
Number of Students	2,519	2,516	2,663	2,803	2,930	2,990

and supplies ($170 million), administrative and professional services ($114 million), maintenance and utilities for campus buildings ($113 million), internal debt service ($113 million), research subcontracts ($74 million), equipment purchases ($63 million), student stipends ($67 million), and travel ($30 million).

Utilities and Maintenance – The total cost of utilities in 2004/05 is expected to be virtually unchanged from the current year cost of $61 million, despite considerable fluctuations in the component utility prices. In the second part of 2003/04, electricity prices decreased nearly 20% due to PG&E's implementation of the approved settlement agreement plan to resolve its Chapter 11 bankruptcy case. While PG&E is not our primary supplier, the COGEN contract is structured to rise and fall with PG&E rates. These savings will continue into 2004/05 and will offset increases in the costs of other utilities. The price of natural gas is projected to increase about 9% over the 2003/04 budget. Although minor utilities compared to electricity and natural gas, domestic water (Hetch Hetchy) and lake water (Santa Clara Valley Water District well tax) prices are projected to increase 9% and 8%, respectively, and sewer expenses from the City of Palo Alto are projected to increase 7%. Overall utility consumption is expected to increase modestly with very few new structures coming on line in 2004/05.

Maintenance and repair costs are budgeted at $52 million in 2004/05. Since the Loma Prieta earthquake, Stanford has made significant investments in renovation and new construction. During this period we have largely rebuilt the campus and have substantially avoided the accumulation of deferred maintenance. To preserve this strong position we have analyzed the ongoing costs of renewing facilities and have begun to provide incremental funds for that purpose. Next year's budget includes an increment of $1 million in general funds for planned maintenance, the first of what will likely be additional incremental allocations over the next several years.

Debt Service – The 2004/05 internal debt service is projected to be $112.5 million, a $2.4 million increase over 2003/04. The university borrows from capital markets and uses the proceeds to fund capital projects and programs. These projects and programs are required to repay the principal and premium, if any, plus interest over the estimated useful 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 2004/05 is 5.4%.

Administrative Systems – This Budget Plan includes $42.6 million for one-time project costs for new administrative systems, plans for upgrades and enhancements to existing administrative systems, and ongoing production support costs for these systems. For the past several years, Stanford has been engaged in a significant effort to replace its administrative systems and to upgrade the infrastructure supporting both academic and administrative computing. While the lion's share of new development projects will be finished with the completion of the Oracle financial systems implementation, there is $19.1 million budgeted for systems development and infrastructure in the 2004/05 budget, a decrease from the $24 million in the current year. Now that most of the large enterprise-wide system implementations are complete, most of next year's systems cost will be expensed, funded from a variety of sources in the Consolidated Budget, including general funds, Presidential funds, and university debt. $6.8 million will be capitalized and is carried in the infrastructure section of the Capital Budget in 2004/05.

Transfers

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

- Additions to Funds Functioning as Endowment: This line represents the net of transfers from designated and restricted funds to funds functioning as endowment (FFE) and withdrawals from these endowment reserves. We expect a total of $15 million will be transferred to FFE in 2004/05, which is down from the 2002/03 actual of $22.0 million.

- Transfer to Plant/Student Loan: This line includes transfers of expendable funds to both plant funds and student loan funds. Of the total, $44.5 million is budgeted to be transferred to plant funds to be used for capital projects. We are budgeting $10.0 million in general funds for academic facilities renovation. Additionally, the academic units are budgeting $34.5 million from designated and restricted funds for a variety of capital projects. $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 Consolidated Budget for Operations, 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 endowment income, and income from the expendable funds pool. Every non-auxiliary unit receives general funds, which support both academic and administrative functions. Total general funds revenue is projected to be $706 million in 2004/05.

The past two budget cycles have been very taxing across the university. Due primarily to an unfavorable investment climate, general funds revenue has not grown sufficiently to meet the needs of a dynamic university. With only a moderate growth in general funds revenue, the university has had to rely, to a large extent, on budget reductions in order to fund new academic initiatives, debt service associated with university growth, and other university priorities.

In total, almost $40 million was cut from general funds allocations over the past two years in order to fund about $35 million of incremental activities. While units absorbed significant reductions during both years, the approach in 2003/04 was different from that in 2002/03. In 2002/03, the university made across-the-board reductions totaling $16 million, with each unit taking about a 4% cut. In 2003/04, units proposed specific cuts and $23 million of general funds was trimmed on a line-by-line basis.

At the outset of the 2004/05 budget process, the university once again faced a general funds deficit of roughly $15 million. This deficit was driven by the need to fund university priorities, including a competitive salary program, academic initiatives such as the new Bioengineering Department, and a renewal of administrative systems and facilities. However, after two years of general funds reductions, there was little fat left to be cut. Thus, the Provost looked toward university-wide structural changes that might yield general funds relief.

Study groups were formed to investigate potential savings from six primary areas:

- Application of the infrastructure charge,
- Income distribution from technology licensing,
- Unraveling of the layers of residential advising,

Summary of 2004/05 General Funds Reductions and Additions (Excludes Formula Units)

[in thousands of dollars]

	Total 2003/04 GF Allocation	Price & Salary Inflation	Reductions	% Reduction	Additions	% Addition	Total 2004/05 GF Allocation
School of Earth Sciences	2,943	72			80	2.7%	3,094
School of Education	9,053	444	50	0.5%	216	2.3%	9,663
School of Engineering	39,584	2,830			440	1.0%	42,854
School of Humanities and Sciences	98,559	4,474	1,000	1.0%	3,070	3.0%	105,103
School of Law	12,466	440					12,906
Dean of Research	22,608	889	760	3.2%	1,133	4.8%	23,870
Undergraduate Education	10,804	469	341	3.0%	250	2.2%	11,182
Office of Admission & Financial Aid	6,338	267	100	1.5%	127	1.9%	6,632
Stanford University Libraries	34,217	1,258	250	0.7%	950	2.7%	36,175
Student Affairs	17,182	728	451	2.5%	223	1.2%	17,682
Total - Academic	253,754	11,871	2,952	1.1%	6,489	2.4%	269,162
Office of the President & Provost	10,870	489	184	1.6%	294	2.6%	11,468
Vice President for Public Affairs	4,464	199	100	2.1%			4,563
Business Affairs[1]	37,887	1,765	615	1.6%	973	2.5%	40,010
ITSS	38,172	1,150	865	2.2%	1,101	2.8%	39,557
Development and Alumni Association	19,795	862	250	1.2%	1,510	7.3%	21,917
Land & Buildings[2]	34,049	1,423			1,192	3.4%	36,663
Other Administrative Units[3]	9,352	297	284	2.9%	270	2.8%	9,635
Total - Administrative	154,588	6,184	2,298	1.4%	5,340	3.3%	163,814
Undergraduate Scholarship Aid	15,626	4,474					20,100
Debt Service	29,912	(3,371)			246	0.9%	26,787
Central Obligations[4]	77,841	3,023			1,050	1.3%	81,914
Total - Other	123,379	4,126			1,296	1.0%	128,801
Total Non-Formula Units	531,721	22,181	5,250	0.9%	13,125	2.4%	561,777

Notes:

1 For this table, insurance and fire contract allocations have been moved to Central Obligations.

2 For this table, utilities allocations have been moved to Central Obligations.

3 Other Administrative Units includes general funds allocations for General Counsel, Procurement, SLAC, Athletics, Stanford University Press, and the Stanford Faculty Club.

4 Central obligations include tuition allowance, graduate student health insurance contribution, the systems reserve, and the university reserve. In addition, for this table, utilities, insurance and fire contract allocations have been included in this line.

- Review of university benefits,
- Evaluation of graduate student housing subsidies, and
- Examination of the delivery of human resources services.

The Provost's Budget Group, which comprises representatives from both faculty and administration, recognized that, though there is potential for future general funds savings in these areas, we were only able to find savings in off-campus student housing subsidies and in funding for the Office of Technology Licensing. We anticipate additional savings in the other areas in the future. Therefore, the Provost asked each budget unit to submit potential line-item reductions at increments of 3% and 5% of its general funds allocation.

Over the next several months, each budget unit met individually with the Budget Group to discuss strategic plans, fund balances, financial reports, and the potential impact of specific budget reductions. At the same time, the projected general funds deficit decreased markedly, due to a continued improvement in the investment outlook.

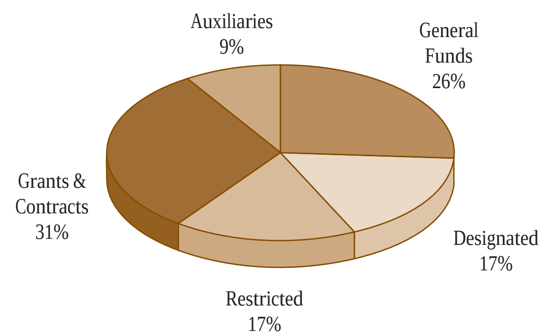
In fact, the budget forecast improved to the point that the Budget Group shifted from a budget reduction to a budget reallocation strategy. The cuts to the units were minimal (about 1% across the university). Through this process the university was able to achieve its top priorities of implementing a competitive salary program for both faculty and staff, providing start-up funds for the Bioengineering program, addressing the deficit in the School of Humanities and Sciences, and providing funds for systems and facilities renewal. Incremental funds were also allocated for a handful of pressing needs such as research compliance staffing and library acquisitions. General funds additions and cuts for individual units are shown in the table on page 11.

The general funds outlook for the university is brighter than it was just a year ago. However, it will take a strong effort on the part of staff and faculty to implement the university-wide structural changes necessary to ensure that general funds grow at a level sufficient to support the university's ongoing needs.

Designated Funds Budget

Designated income comes into the university as unrestricted revenues, but has been directed to particu-

2004/05 CONSOLIDATED EXPENSES BY FUND TYPE



lar units for specific purposes by management agreement. The main sources of designated income are special program fees such as technology licensing income, corporate affiliates payments, and executive education programs; payments from the hospitals to the departments in the Medical School through the clinical practice; and other investment income, including income generated by the Stanford housing portfolio and investment income supporting the Stanford Management Company. Also included in designated funds are most activities of the Stanford Alumni Association, including all of the income and expenses associated with the travel/study programs. Other designated funds include funds set aside for university-sponsored research and cost sharing. The schools, departments and programs, and individual faculty members control the majority of the funds in these budgets, but also included in this category are funds held by the university as reserves, such as self-insurance reserves.

Total designated income is expected to be $397.4 million in 2004/05, an increase of 7.1% over the 2003/04 year-end projection. This growth is fueled by an 11.8% projected growth in designated clinical revenue paid by the hospitals to the School of Medicine for physician services. The remaining designated funds are expected to grow about 2.8%. Additionally, we are projecting that $54.5 million, primarily general funds and endowment income, will be transferred to support the designated funds budget.

Total expenses charged to designated funds are budgeted to be $441.2 million. An additional $25.0 million of designated funds, primarily existing fund balances, is expected to be transferred to funds functioning as endowment and to cover plant projects. The $14.3 million designated funds deficit primarily represents a planned use of the university's substantial designated fund balances for capital projects.

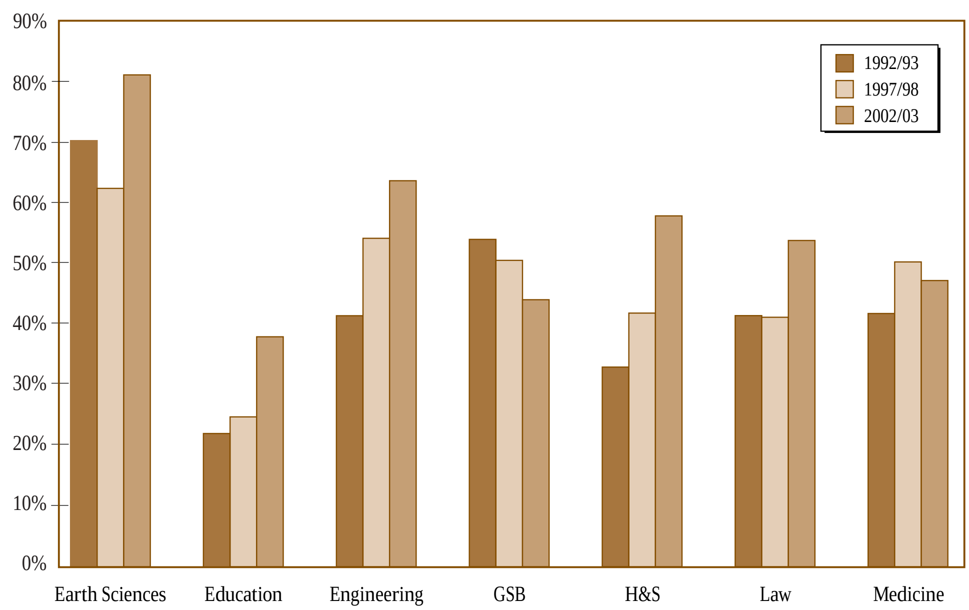
Restricted Funds Budget

The restricted funds budget represents income, expenditures, and transfers for both restricted expendable funds and restricted endowment income funds. Together, revenue from these sources is projected to be $506.2 million in 2004/05. Of this total, $334.6 million is from endowment income and the remaining $171.6 million is from expendable gifts, payments on prior pledges, and expendable funds pool payout on restricted fund balances. $437.3 million is budgeted to be spent from restricted funds for a variety of activities, including endowed professorships, fellowships, and general expense supporting research and teaching. $100.8 million of this amount will be used to cover financial aid. An additional $46.6 million in restricted funds is expected to be transferred to other fund types, including plant, endowment principal, and designated funds. Total restricted revenues less expenses and transfers net a projected surplus of $22.3 million, most of which will be added to the fund balances in the schools.

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 a given year, resulting in growth in fund balances. Some of the annual revenue is not used because the terms of the funds are so restrictive as to preclude its 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. 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 use restricted funds in place of general funds where possible. Schedule 17 in Appendix B shows the academic area fund balances by unit.

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 2004/05 of $806.6 million represents $546.1 million of direct sponsored activity under the oversight of individual faculty principal investigators and $260.0 million in direct costs for SLAC. The total includes $10.0 million of student aid. The university direct cost totals are formulated based upon the projected year-end results for 2003/04 and through consultations with individual research areas. Total university research volume is expected to grow by 3.2% in 2004/05. This growth rate, more moderate than in the past, reflects a significant reduction in research volume related to Gravity Probe B following its successful launch in April 2004. SLAC is projecting a 14.0% increase over its current year budget with the ramp up of its major construction project, the Linac Coherent Light Source.

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 deficit of $0.9 million in 2004/05.

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. 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.

Athletics – The Department of Athletics, Physical Education and Recreation (DAPER) projects a balanced consolidated budget in 2004/05. DAPER operating budget income will grow by 4% from 2003/04, due primarily to increased budgeted contributions of restricted funds to cover discretionary sport program spending. These contributions have occurred historically, but were not previously formalized in the budget. Other operating budget income areas remain basically flat. DAPER is budgeting a slight decrease in football gate receipts. Contractual income from the NCAA and Pacific 10 Conference will increase by 3%. After holding salaries flat in 2003/04, DAPER will have modest salary growth in 2004/05, consistent with the university's salary plan. Total compensation will rise further due to the increase in the university benefits rate. To adjust to a flat income base, DAPER will make budget reductions in several operational and marketing areas. Though new program growth will be quite modest, no reductions will be made to sport programs or programs affecting the well being of participants.

The total number of full scholarships will increase from 305 in 2003/04 to 314 in 2004/05. DAPER's Campaign for Undergraduate Education fundraising success, coupled with the rebound in endowment performance, will offset the cost of incremental scholarships, as well as higher tuition and room and board costs.

Blood Center – The Blood Center is projecting a balanced budget of $24 million for 2004/05. The Blood Center continues to function as an auxiliary because 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. Approximately 53% of budgeted expense is related to salaries and benefits while the remainder is related to the other direct costs, including supplies, utilities, and operations, of running the center.

HighWire Press – HighWire Press is projecting a deficit of $900,000 after its annual transfer to University Libraries and one-time expenses (funded from designated reserves) for the creation of a digital backset of the journals presently associated with HighWire. This digital backset will enhance customer retention and satisfaction and will include many, but not all, of the reading and searching features HighWire now offers. Major new growth beyond science and medicine titles is underway with the addition of 450 journals in the social sciences and the humanities. Price reductions in calendar 2004 have addressed customer concern, but have eliminated the ability to add to reserves; prices are now competitive. Significant development work is being done to largely automate the manual and repetitive work of content loading, and this will allow additional revenue growth through staff redeployment or attrition without added expense.

Residential and Dining Enterprises – Residential and Dining Enterprises (R&DE) is projecting a $437,000 deficit on revenues and transfers of $119.5 million in 2004/05. R&DE will use reserves to cover the shortfall.

Total Auxiliary and Net Service Center Activities, 2004/05

[in millions of dollars]

	Revenues and Transfers	Expenses	Surplus/ (Deficit)
Athletics[1]	40.3	40.3	
Blood Center	24.0	24.0	
HighWire Press & Media Solutions	18.8	19.7	(0.9)
Residential and Dining Enterprises	119.5	119.9	(0.4)
Stanford West/Welch Road	14.5	14.0	0.5
University Press	6.5	6.5	
Net Service Center Activity[2]	20.1	20.1	
Other	17.6	17.7	(0.1)
Total[3]	261.3	262.2	(0.9)

Notes:

1 Financial Aid activity and Camps are not included.

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

3 This Table represents gross revenues and expenditures. When incorporated into the Consolidated Budget on page 2, interdepartmental transactions of $22 million have been netted out.

Capital projects scheduled for 2004/05 include the first phase of the three-phase Roble Hall renovation to meet seismic, life safety, and other codes. Seismic improvement projects are also planned for two of the Row Houses, and there are plans to address code issues in Escondido Village.

2004/05 will be the first fiscal year that R&DE is able to benefit from 12 months of revenue generation from two of its latest enterprises: the SLAC Guest House, which is operated by Student Housing, and the Tresidder Union (including the Coffee House) food service operation that is run by Stanford Dining. Another new source of revenue is the "Just Like Home" laundry program, which is now included in the room rate. The laundry program was implemented in response to student requests and supports R&DE's objective of serving student needs.

As a result of university policy on the application of the pooled debt rate, R&DE will realize significant interest expense savings. However, these savings will be more than offset by several expense increases, including the continuing escalation of fringe benefits; the costs of new enterprises; Student Housing's implementation of a state-of-the-art facilities management system; and R&DE's responsibility for the operations, maintenance, and debt service of the new Graduate Community Center.

Combining these issues with the continuing initiatives to build an asset preservation program that funds building infrastructure renewal, and the near-term goal of stabilizing operations, presents R&DE with a challenging year.

Stanford West/Welch Road Apartments – Stanford West Apartments will be assuming the Below Market Rate (BMR) requirements for the Hyatt Classic Residences scheduled to open in 2004/05. By agreement with the City of Palo Alto, Stanford West will be required to increase the number of BMR units from 63 to 105 in 2004/05, and up to 156 units in 10 years. The addition of BMR units will cause a drop in revenue over time, so the project will need to bank its expected surplus to cover future years. The Welch Road Apartments expects a surplus of $150,000 for 2004/05. The surpluses for both of these auxiliaries are added to their capital reserves. The university currently is using the capital reserves for the Welch Road Apartments to cover depreciation expenses of various other rental properties.

University Press – Stanford University Press is forecasting total revenue and other income of $6.5 million with $4.6 million coming from book sales and $1.9 million from rights sales and other income sources. As in the previous four years, this income will be applied in proportional measure to sustaining the Press's list of humanities books, which constitute the majority of titles signed and published, and to underwriting the growth of the lists in the social sciences, law, and business.

Year-on-year sales growth will be less aggressive than the 14% anticipated this year, because the difficult trading conditions that have plagued university presses for the last three years are expected to intensify.

To ensure that its title output is maintained and that its new programs are properly funded, the Press will continue its program of cost control, reducing overhead by 10% over the current year, thereby reducing its cost base to pre-2001 levels.

At the same time, a general fund operating subsidy of $498,000 will continue to play a part in supporting the University Press as it strives to become a self-sustaining enterprise.

THE CONSOLIDATED BUDGET BY ORGANIZATIONAL UNIT

Graduate School of Business

The Graduate School of Business (GSB) projects a $1.3 million surplus budget for 2004/05, before contributions to building reserves. The school plans to offset increased expenses with higher tuition, aggressive fundraising, and continued growth in its executive education business. The GSB expects salary pressures and continued increases in benefits costs to add substantially to its costs.

Revenues are expected to grow 8% over the budget plan for 2003/04. A concerted fundraising effort has begun to support two new research centers (the Center for Leadership Development and Research and the Center for Global Business and the Economy), to support faculty (especially junior faculty), and to provide fellowship support for the MBA and Ph.D. Programs. At the same time, the GSB has increased degree tuition 4.8%, and it is targeting a modest increase in executive education revenues due to price increases and new programs.

School of Earth Sciences

The School of Earth Sciences projects a surplus of $1.1 million on revenues and transfers of $34.0 million. A plan to more than double expendable gifts revenue to $1.8 million, and a projected 5.6% increase in endowment payout, will provide for the surplus. Revenue from designated funds and affiliate programs is expected to be flat next year. The consolidation in the oil, gas, and mineral industries has resulted in fewer companies in these industries, and the remaining firms are competing for business. This affects the growth in membership in the affiliate programs.

The school's consolidated budget is heavily dependent on non-general funds; for 2004/05, general funds will make up 12.3% of total expenses, slightly down from 13.0% in 2003/04. Endowment income and grants and contracts together make up slightly more than two-thirds of the school's budget.

School expenses are projected to increase 11% in 2004/05. This anticipated growth reflects first steps in the implementation of the school's strategic plan, a base adjustment of faculty salaries that addresses some market and equity issues, fellowships for graduate students in the Interdisciplinary Program in the Environment and Resources (IPER), and various group and individual research activities in the school.

A significant number of Earth Sciences faculty are expected to retire over the next five years. The school expects to draw from expendable and endowment fund balances to recruit, provide start-up packages for, and renovate laboratories for new faculty. In addition, these fund balances will allow the Dean to provide seed money for new initiatives and centers of excellence. They will also serve as bridge funding during periods of weak economic performance.

School of Education

The School of Education projects a deficit of $1 million in 2004/05. The deficit primarily results from an unusually high beginning balance of non-federal sponsored project funds that is expected to decrease by over $2 million during the year. In 2002/03 and 2003/04 several large non-federal grants pre-funded multi-year projects.

Revenue Growth – Revenue is expected to increase only 3% over 2003/04.

- Unexpectedly high revenues in 2003/04 resulted from a special fundraising event sponsored by Bill Cosby, which brought in over $1 million.
- For the past several years over half of the expendable funds raised have been in support of the John Gardner Center for Youth and Their Communities.
- In 2003/04, the school experienced a decrease in revenue from federal sponsored project activities, and this is expected to continue in 2004/05. This slowdown in federal sponsored project activities results from two recent developments: (1) changing demographics of the faculty, resulting in a larger number of junior faculty, and (2) the movement of grants supporting School of Education faculty to the Stanford Center for Innovations in Learning (SCIL).
- If the school succeeds in raising funds to remodel the Old Bookstore, $2 million in pending funds can be directed to general school activities and revenue growth could increase as much as 9%. The remodeled building will house the school and community partnership programs.

Expense Growth – Expenses are expected to grow by 5%, primarily in non-federal sponsored project activities.

Projected Consolidated Budget for Operations by Unit, 2004/05

[in millions of dollars]

	Total Revenues and Transfers	Total Expenses	Surplus/ (Deficit)
Academic Units:			
Graduate School of Business[1,2]	98.7	97.4	1.3
School of Earth Sciences	34.0	32.9	1.1
School of Education	28.1	29.2	(1.0)
School of Engineering	209.6	204.8	4.7
Hoover Institution	33.7	33.7	
School of Humanities and Sciences[1]	269.8	280.4	(10.7)
School of Law	34.7	34.5	0.3
School of Medicine[1,2]	787.4	811.8	(24.4)
Dean of Research	177.5	176.3	1.3
Vice Provost for Undergraduate Education	22.1	24.0	(1.9)
Total Academic Units	1,695.6	1,725.0	(29.4)
Academic Support Units:			
Admissions (excluding financial aid)	6.7	6.7	
Stanford University Libraries	51.0	53.6	(2.5)
Student Affairs	25.2	25.3	(0.1)
Total Academic Support Units	82.9	85.5	(2.6)
Total Administrative	537.2	538.6	(1.4)
Total Auxiliary Activities	239.2	240.1	(0.9)
SLAC	260.0	260.0	
Internal Transaction Adjustment	(163.1)	(163.1)	
Indirect Cost Adjustment[3]	(158.7)	(158.7)	
Grand Total from Units	2,493.2	2,527.4	(34.2)
Central Accounts	74.2	59.4	14.8
Central Adjustment[4]	26.1		26.1
Total Consolidated Budget	2,593.5	2,586.8	6.7

Notes:

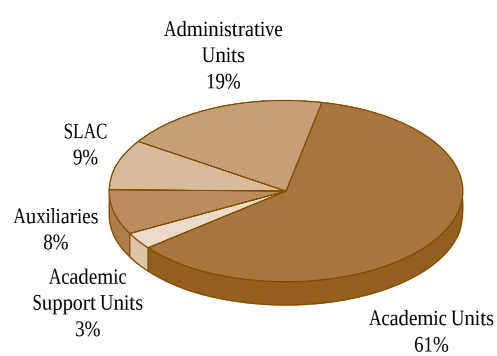
1 The budget lines for the School of Medicine, Graduate School of Business, and H&S do not include auxiliary revenues and expenses. These items are shown in the Auxiliary Activities line. These auxiliary operations include Medical School Blood Center, the Schwab Center of the GSB, and Overseas Studies, 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 $158.7 million received by the schools is taken out in the "Indirect Cost Adjustment" line.

4 The $26 million of revenue 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.

2004/05 Consolidated Expenses by Unit



- The operating budget will grow by 3.5%, primarily as a result of faculty and staff raises and increased benefit expenses. While the new Elementary Teacher Education Program will increase expenses, the school hopes to secure outside funding for a portion of these. Faculty searches for 2004/05 have not been finalized, and expenses could grow if the school succeeds in filling some open positions.
- Expendable gift expenses relate to two areas: (1) new fellowships which will be supported by funds secured from the Bill Cosby event, and (2) a growth in expenses related to the John Gardner Center.
- Non-federal sponsored project expenses will increase 10%, and federal expenses will stay flat or fall slightly

School of Engineering

The School of Engineering projects a surplus of $4.7 million in 2004/05 on expected revenues and transfers of $209.6 million, which reflects a 3% increase over 2003/04 projected year-end results.

The School of Engineering approached its budget reductions in 2003/04 with the goal of protecting the ability of its departments to effectively deliver their academic programs. Although these budget cuts have been sustainable, the school continues to be concerned with funding core academic activities along with new initiatives.

In lieu of additional 2003/04 budget cuts, the school proposed to increase its base Masters enrollment by 63 students from the 2002/03 level. The school was successful, enrolling 102 students, and plans have been put in place to continue with this increased enrollment. 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. Tuition revenue, net of central and local program support, will be used to meet the school's budget target.

Hoover Institution

Continued success in fundraising and sound management of expenditures have enabled the Hoover Institution to generate a series of annual budget surpluses over the past ten years and to build a reserve fund. The budget outlook for the future continues to call for balanced budgets.

Although the Institution is on solid financial footing, it continues to face an unsettled economic outlook. In response, the Institution has embarked on a contingency plan that will reduce Hoover's annual base budget expenditures by $2.5 million over a two-year period; this represents a budget reduction of 8%. While the cuts will be accomplished primarily in the research and communications area, contingency planning allows for opportunistic hiring to refresh and enhance the scholarly ranks of the Institution.

School of Humanities and Sciences

The School of Humanities and Sciences (H&S) projects a deficit of $10.7 million for 2004/05. H&S will continue with last year's strategy of using accumulated fund balances to maintain academic programming levels, strengthening the graduate aid program, and making investments in faculty hires, infrastructure, and facilities.

The school has increased the volume of faculty hiring to fill billets that have been vacant for a number of years. This initiative will result in $12 million of one-time recruitment expenses. The graduate aid program has been strengthened across the school in order to attract top students. Increased levels of student funding, including the addition of a fifth year of support, have increased graduate aid costs by $8 million per year. As a result of these and other investments, consolidated fund balances are projected to decrease by $10 million. Over the short term, these investments will create considerable strain on the school's finances, requiring the use of one-time funding sources for both one-time and ongoing costs.

Long-term projections show that H&S will move back to financial equilibrium through a combination of revenue enhancements and expenditure controls.

Increases in general funds over the next three years will provide immediate relief, and fundraising activities associated with the Hewlett gift will steadily increase endowment income streams. To manage and reduce expenditures, the school has launched initiatives to reorganize department and program administrative structures and increase grant and contract support of expenses. The Dean's Office is also examining the faculty hiring plan to slow searches and move some senior searches to the junior level.

School of Law

The Law School projects a small surplus of $253,000 on revenue and transfers of $34.7 million. Expenses will increase approximately 7% as the school begins rebuilding its tenure line faculty and addresses competitive faculty salary pressures from peer schools. The school has also begun building a clinical faculty and will continue to expand its clinical offerings. The Law School will continue drawing down expendable gifts that have been raised during past years to fund start-up programs and clinics.

School of Medicine

For 2004/05, the School of Medicine is projecting a $24.4 million deficit. Key components of this projection include the following:

- Expenses are projected to increase 5.6% over the projected 2003/04 actual results, while revenues are projected to increase only 4.0%.
- The school will lose $5.3 million in revenue from the change in the Board's investment and earnings policies for unused endowment income and expendable funds.
- The school will increase its investment in interdisciplinary programs, including Clark Center operations, Bio X, the Department of Bioengineering, the Stanford Institutes of Medicine, and the development of the Comprehensive Cancer Center.
- The school plans to transfer $5.0 million of designated funds to funds functioning as endowment, an additional $12.6 million to cover plant-related costs, and $2.3 million to the Department of Bioengineering for costs related to department operations and faculty recruitment.

$6.8 million of expendable reserves held by the Dean's Office and by individual departments will be used in 2004/05 to cover expenses, and an additional $17.6 million will be transferred to endowment and plant. The Dean's Office and the departments have accumulated reserves to use for program and facility development and will utilize the reserves wisely in their 2004/05 investments in carefully planned strategic initiatives.

Revenue Growth – Revenue is projected to increase 4.0% for 2004/05 over the projected 2003/04 year-end actual results. This projected revenue growth is lower than that of prior years due to the following factors:

- Changes in the Board of Trustees' policies for the investment of unused endowment income balances and the cap on the distribution of earnings on the expendable funds pool result in a projected loss of $5.3 million.
- A slower rate of growth in research activity is projected (3.8%) due to space constraints, the reductions in the growth of the NIH budget, and an anticipated slowdown in the recruitment of tenure line faculty.
- Modest increases in the level of new expendable gift revenue are projected for 2004/05, as a major focus of the school's 2004/05 development effort will be capital gifts, which are not part of the Consolidated Budget.

Income from clinical operations is projected to increase 11.8% in 2004/05 from the projected year-end results for 2003/04. The two major components of this income stream are the professional fees generated from patient care services and the service payments from the hospitals. As a result of the recruitment of incremental Medical Center line faculty and clinician educators, plus a projected increase in productivity of the current faculty, the school projects an increase in professional fee income of 12.0%. Service payments from the hospitals are projected to increase 11.2%. The largest component of the service payment increase is in program development funds to support the school's recruitment of new faculty for the hospitals' expansion of their centers of excellence.

Expense Growth – The school's budget plan assumes the recruitment of approximately nine incremental tenure line faculty and 22 incremental Medical Center line faculty in 2004/05. The expenses related to faculty recruitment, including program support and incremental staff, are included in the budget plan. This represents a slower growth in faculty than the average for the past three years. A number of factors have influenced this projection. All available space for faculty is assigned and fully utilized; the Provost has imposed a cap on the school's faculty billets; the departure rate of faculty is projected to increase as many reach retirement age; and unrestricted resources for expansion and faculty retention are limited.

Expenses are projected to increase 5.6%, or $44.2 million, in 2004/05 over the projected 2003/04 year-end results. The major components of this increase are:

- $8.2 million in expenses associated with the incremental tenure line and Medical Center line faculty,
- $13.3 million in increases in annual compensation for faculty and staff salaries,
- $9.6 million in increased costs of employee benefits for current faculty and staff,

- $6.0 million in increases in non-compensation expenditures on sponsored projects, both direct and indirect, and
- $3.9 million in increases in space-related costs.

Transfers to Plant, Endowment, and Other Entities – The school and individual departments will continue to transfer funds to endowment as a mechanism for earning additional return on the funds while holding them for future investments in new faculty and programs. The projected amount of these transfers is $5 million in 2004/05. The projected transfers to plant of $12.6 million represent the school's continued expenditure on planned maintenance projects plus smaller renovation projects and discretionary projects to accommodate changes in program and recruitment of faculty.

Dean of Research

The Vice Provost and Dean of Research and Graduate Policy budget relies heavily on restricted funds and sponsored research, which constitute more than 75% of total projected revenue. Affiliate, gift, and endowment income is expected to increase in 2004/05, as are associated expenditures. Due largely to expected endowment income, the Dean of Research budget anticipates a $1.3 million surplus in 2004/05. As long as the endowment pool share value remains high, programs supported by endowment income, such as the Stanford Graduate Fellowship Program, will be in good financial standing.

Sponsored research activity is expected to remain strong. Recent research activity includes the Gravity Probe B launch and announcement of a new seed research program at the Stanford Institute for the Environment (SIE). SIE is a new independent institute designed to serve as a coordinating organization for environmental research and education at Stanford. Faculty interest in the program has been extremely high: SIE received 39 proposals from 87 faculty members representing 29 university departments, including classics, music, pediatrics, chemistry, and geophysics.

VPUE

In 2004/05, the Vice Provost for Undergraduate Education (VPUE) projects a deficit of nearly $1.9 million to be covered by existing fund balances. This deficit was anticipated in the multi-year funding plan that permitted VPUE to begin implementing substantial undergraduate education initiatives in 1994/95. This plan called for a combination of one-time funding sources to support the new initiatives for the first several years, 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 permanent funding for VPUE has increased through CUE gifts and base general funds increments, a significant gap remains between the ongoing costs of the undergraduate programs and the permanent funding available to support them. The $1.9 million deficit constitutes 8% of total forecast 2004/05 expenditures, and closing it will expend 17% of accumulated fund balances.

The following factors contribute to the amount of the projected deficit in 2004/05:

- One-time support from the President's and Provost's offices is forecast to decrease from $2.5 million in 2003/04 to $570,000 in 2004/05, a decrease of 78%. As anticipated in the multi-year funding plan, this one-time support has decreased annually as offsetting CUE revenues became available. One-time support from the President and Provost is scheduled to end in 2004/05.
- By 2004/05, VPUE will have exhausted its single largest funding source, which supported 13% of 2003/04 consolidated expenditures and has provided over $15 million of support since 1994/95.
- VPUE is investing in new residential advising initiatives and in the new writing curriculum, requiring significant investments in classroom technology and oral communication infrastructure. To meet growing student and faculty demand, VPUE is also continuing the scheduled expansion of undergraduate research programs. Together these new investments have $1.2 million of projected expenses and are supported through $250,000 of incremental base general funds earmarked to support the new writing requirement, increased allocations from accumulated fund balances, and the reallocation of existing resources. As in the previous two fiscal years, VPUE proposes to support innovation though reallocation of existing resources, and accordingly is reducing expenditures by an additional $280,000 beyond the Provost's mandated general funds reduction of $341,000.
- The forecast deficit is mitigated by a substantial turnabout in forecast endowment income. In 2004/05, VPUE forecasts endowment income of $8.3

million, representing an increase of 118% from the $3.8 million of endowment income that was forecast in 2003/04. In 2003/04, 75% of the total market value of VPUE endowments was invested in endowment funds expected to be subject to income shortfall, effectively halving their endowment payout and decreasing total anticipated revenue by $2.1 million. In 2004/05, with improved endowment performance, only 9% of combined endowment market value is forecasted to be subject to shortfall. CUE donor pledges have exceeded forecasts, and anticipated gift receipts also contribute to increased projected endowment income.

With its many new endowment funds, VPUE remains vulnerable to substantial income fluctuations from endowment shortfalls that can result from comparatively small decreases in endowment market value. As a buffer against this market volatility, VPUE seeks to retain adequate reserves while simultaneously allocating from these reserves to fund annual deficits forecast through 2008/09, when incremental CUE income is forecast to close the funding gap.

Libraries

After two years of budget cutting, 2004/05 shows some improvement in the support from general funds and increased payout from endowments. Although Stanford University Libraries & Academic Information Resources (SUL/AIR) will remove $250,000 from the base expense budget, it will do so primarily by attrition and cost cutting in non-personnel areas. SUL/AIR continues to have about $2 million structural deficit, arising primarily from its inability to increase revenue for materials and supplies expenses in the 1990s, while its expenses, particularly for computers and related services, as well as for facilities and outsourcing, increased dramatically. SUL/AIR continues to use its diminishing fund balances to balance its budget, but there is now almost no reserve to apply to innovation, to the development of new systems and services, or to various minor capital projects.

Incremental allocations to the SUL/AIR 2004/05 base budget provide a course management system as a common good to the entire campus and increased funding for the operations at the new SAL3, the high-density storage facility in Livermore, California. Further, increases to the library materials budget are meant to account for the dramatic decrease in the value of the U.S. dollar against foreign currencies, in which SUL/AIR spends well over 50% of its collections budget. The library materials budget continues to be stretched by the addition of new programs of teaching and research at Stanford, without equivalent decreases in other programs.

One-time funding will be directed to continued development of a course management system to succeed CourseWork, to the Stanford Digital Repository (a managed care facility for digital intellectual property assets), and to the acquisition of the Samson Copenhagen Collection, a rare book collection important to Judaic and historical studies at Stanford.

While new support for the course management system is in place, that support will be limited to basic technology maintenance; it will not provide direct support to instructors for creating or converting content to include in an instantiation of CourseWork. Academic Computing staff will provide training for instructors and teaching assistants in the use of CourseWork and supporting applications, attempting to make them self-sufficient, rather than providing direct support course by course.

Vice Provost for Student Affairs

In 2004/05, the Vice Provost for Student Affairs will increase its use of fee revenues to support its operating budget. Unrestricted local reserves will be used to fund new and short-term initiatives, including those in residential and student programming and staff development. Multi-year expendable gifts from prior years will be used to support gift-related programs.

To meet the general funds reduction goals for 2004/05, the division will reduce funding for programming in several areas, restructure a limited number of positions, and, at least for this year, use fees to support a small portion of base expenses. It will also increase fees for applicants to many graduate programs and incoming students. New base funding has been added for positions in Judicial Affairs and classroom technology support, as well as to complete the support for a major reorganization following system implementation several years ago.

One-time commitments to graduate student programs and staffing were renewed, as were support for an intensive summer orientation for Native American students and support for technology and related equipment in classrooms.

Beginning late in 2003/04, the Office of the Dean of Freshmen and Transfer Students will work closely with Freshmen Advising and will report directly to VPUE, while continuing to collaborate with Student Affairs. The 2004/05 Consolidated Budgets for VPUE and Student Affairs reflect this change in reporting structure.

SLAC

The Department of Energy (DOE) still provides most of the funding for SLAC, although in recent years SLAC has been involved in various interagency projects such as SPEAR3 and GLAST. The Linac Coherent Light Source (LCLS), SLAC's next major construction project, will also be funded by the DOE. The project will utilize the last third of 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 about $270 million, and the project is currently in the design phase. It is scheduled to be operational in 2007/08. The projected costs for 2004/05 assume funding of $54 million for the LCLS program ($4 million for R&D, $20 million to continue design, and $30 million to initiate long-lead procurements), but this funding awaits Congressional action. Primarily because of the expected LCLS project funds, total direct costs for SLAC are expected to be significantly higher in 2004/05 than in 2003/04.

Although in the President's proposed 2004/05 budget for SLAC there is growth in the synchrotron radiation science area (LCLS, SPEAR3 operations, and other research programs), the High Energy Physics (HEP) request for SLAC was lower than in 2003/04. This reduction, although small, coincides with a significant expected rise in electrical power costs due to the expiration of a long-term favorable contract that the Western Area Power Administration (WAPA) has with Pacific Gas & Electric (PG&E). 2004/05 electrical power costs for SLAC are estimated at $16.4 million, an increase of about $7 million from 2003/04. SLAC is requesting a supplement of $12.5 million above the President's HEP request from DOE in order to maintain a reasonable but lean program.

Stanford Alumni Association

Stanford Alumni Association (SAA) is projecting a balanced budget for 2004/05. SAA anticipates a slight increase in funds and revenues from both internal and external sources. SAA anticipates a slow but steady recovery from many external revenue sources, and it will use the available resources to continue to build and maintain alumni relation activities.

SAA was able to balance its projected 2003/04 budget through dramatic reductions in both staffing and program expenses. Now, however, SAA management has determined that some of these reductions may have been too severe and risk adversely impacting the long-term commitment and involvement of alumni. Consequently, SAA is re-examining each of its program cuts, and is prepared to reallocate any available resources so as to achieve the greatest return on investment.

SAA is confident that it will be able to maintain its focus in 2004/05 on its four main strategic priorities: building Stanford's presence in the regions; integrating Stanford's alumni into the life of the university; strengthening class identity; and leveraging the power of communications.

Information Technology & Systems Support

For 2004/05, ITSS forecasts consolidated revenue of $86.5 million. This funding is divided approximately equally between general funds of $42.5 million and service center rate-based funds of $44 million. The 2004/05 general funds budget reflects a reduction of 2%, following two previous years of reductions at a deeper level.

General funds of $26.5 million are provided to staff, equip, and operate all principal university administrative systems; Financial (Oracle), Human Resource (PeopleSoft), and Student Administration (PeopleSoft) consume the majority of this funding.

$16 million of remaining general funds is dedicated to basic IT services that are utilized by all university client groups: faculty, staff, and students. These are services and/or infrastructures that are essential in nature to delivering and supporting technology: Networking, Backbone and Desktop Security, Help Desks, and the Campus Card program.

ITSS provides rate-based services through its four service centers:

- Communications Services (voice, video, and data communications) – $31 million,
- Stanford Data Center (hosting, operations) – $7 million,
- Computer Resource Center (desktop and server installation, and maintenance) – $5 million, and

- Technology Training (lecture, hands-on, classroom, and web-based training) – $1 million.

One of ITSS's major goals for 2004/05 is to reduce the cost of services to its clients. A rate reduction in telecommunications for local calling will eliminate approximately $1 million from rate-based services that will be passed on to clients in their local calling rates.

Other process improvements and technology options are being actively pursued to accomplish similar savings across a variety of services without sacrificing performance and client satisfaction.

Land and Buildings

The Land and Buildings organization is projecting a $476,000 surplus. Most of the surplus results from endowment income in support of special campus houses that exceeds the annual operations and maintenance of these houses and is reserved for major planned maintenance projects in the upcoming years. Similarly, a projected surplus in the Residential Subdivision auxiliary will be reserved for major infrastructure projects related to roads and pathways in the residential subdivision.

A recent study projecting future needs in planned maintenance projects showed that due to Stanford's significant investment in renovation and new construction since the Loma Prieta earthquake, many buildings will be entering their early planned maintenance cycles. The university has allocated an incremental $1 million of general funds to the existing $8 million for planned maintenance to address these needs.

Only a couple of new building and renovation projects will be completed in 2004/05. Therefore less than $200,000 has been allocated for incremental O&M and utilities. These costs are related to the construction of the EPGY building, the renovation of Building 500/510 (the Archaeology Center), and smaller infrastructure projects.

Utilities costs overall are relatively flat due to offsetting decreases and increases in the different utilities. Electricity prices decreased 20% as a result of PG&E's implementation of the approved settlement agreement plan to resolve its Chapter 11 case. Natural gas, domestic water, lake water, and sewer costs are projected to increase in the upcoming year.

Overall, the service centers are projecting a break-even between revenues and expenses, with a small increase in expenses due to the salary increases related to the university salary program, the Bargaining Unit contract, and the benefits rate increase.

Minimal rate increases are projected due to a combination of reduction in non-salary expenses, productivity improvements, and maintaining the level of customer-funded work. As always, the nature of service centers is such that unexpected changes in the Capital Plan and customer-funded work could cause the revenue streams to fluctuate, thereby affecting staff headcounts and service center rates.

IMPACT OF THE CAPITAL BUDGET ON THE CONSOLIDATED BUDGET FOR OPERATIONS

The 2004/05 Capital Budget calls for $168.9 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 $2.4 million in incremental internal debt service for those projects that will be coming on line in 2004/05 or for projects completing in 2003/04 that were operational for less that the entire fiscal year. Of this total, $278,803 will be borne by unrestricted funds (general funds and designated funds) and $2.1 million will be covered by the Auxiliaries and Service Centers. The second impact of the Capital Budget on the operations budget is $792,000 for incremental operations, maintenance, and utilities costs, primarily for the Lucas Center, Maples Pavilion renovation, and the Graduate Community Center.

PROJECTED STATEMENT OF ACTIVITIES

The table on page 25 compares the Consolidated Budget for Operations with the projected operating results section of the Statement of Activities. The Statement of Activities summarizes all changes in net assets during the year (both operating and non-operating). It has similarities to a corporate income statement. It is prepared in accordance with Generally Accepted Accounting Principles (GAAP) and is part of the audited annual financial statements published in the Annual Report.

Stanford University, as a not-for-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 are subject to different legal and management constraints.

There are four different types of funds:

1) Current Funds, which include revenue to be used for operating activities — e.g., tuition revenue, sponsored research support, endowment payout, and other investment income;

2) Endowment Principal Funds, which include all of Stanford's endowment funds;

3) Plant Funds, which include all funds to be used for capital facilities purposes, such as construction of new facilities or retirement of indebtedness;

4) Student Loan Funds, which include those funds to be lent to students.

The Consolidated Budget for Operations follows the principles of fund accounting, representing the sources and uses of current operating funds on a modified cash basis that more closely matches the way that the university is managed internally. It 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. For example, a school may choose to transfer operating revenue to be used to fund 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.

Stanford also has external reporting requirements in addition to its requirement to manage funds in accordance with donor-imposed restrictions. The university prepares its annual financial statements in accordance with GAAP.

CONVERTING THE CONSOLIDATED BUDGET INTO THE STATEMENT OF ACTIVITIES

To convert the Consolidated Budget to the Statement of Activities format, it is necessary to add revenue and expense reclassifications and adjustments to the numbers in the Consolidated Budget. For example, the Consolidated Budget reports as expense the use of funds to acquire equipment. The Statement of Activities records the acquisition of capital equipment as an increase in assets in the Statement of Financial Position (similar to a corporate balance sheet), with a corresponding annual amount of expense required to depreciate the cost of the capital equipment over its useful life in the Statement of Activities. Additionally, the Statement of Activities incorporates the activities of other separate, wholly owned entities, which are not accounted for in the Consolidated Budget.

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

a) Eliminate fund transfers. The Consolidated Budget includes transfers of $61.6 million of current funds to other fund classifications, including plant and student loans ($46.6 million) and funds functioning as endowment ($15 million). The Statement of Activities reflects operating results for all fund types, including plant, student loan, and funds functioning as endowment.

b) Record capital equipment purchases as assets on the Statement of Financial Position. The Consolidated Budget includes the projected current year's purchase of capital equipment as expense. For GAAP purposes, the cost of capital equipment is recorded as an increase in assets on the Statement of Financial Position and recorded as depreciation expense ratably over the useful life of the asset in the Statement of Activities. As a result, $63.6 million is subtracted from Consolidated Budget expenses. Effective September 1, 2003, the university changed the threshold above which equipment purchases are capitalized, from $1,500 to $5,000. Net of the current year's depreciation expense, this change is expected to result in approximately $20 million additional operating expense in the Statement of Activities.

c) Record depreciation expense for the current year's asset use. The Statement of Activities includes the 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 million of expense.

d) Accrue fringe benefit expenses. The Consolidated Budget reflects the fringe benefits cost as the amount of the fringe benefit rate charged on all salaries. It does not reflect the actual payments made by the university to external providers. Those costs may differ from the amount collected through the fringe benefits rate. In addition, the Statement

Comparison of Consolidated Budget and Statement of Activities, 2004/05
Unrestricted Net Assets

[in millions of dollars]

Statement of Activities				Fiscal Year 2004/05		
2002/03 Actuals	2003/04 June 2003 Budget	2003/04 Projected Year-End		Projected Consolidated Budget	Adjustments	Projected Statement of Activities
			Revenues and Other Additions			
			Student Income:			
185.3	191.9	193.4	Undergraduate Programs	201.7		201.7
166.6	185.0	183.3	Graduate Programs	196.4		196.4
82.1	92.4	90.3	Room and Board	93.3		93.3
(116.1)	(123.6)	(132.0)	Student Financial Aid[e]		(141.9)	(141.9)
317.8	345.7	335.0	Total Student Income	491.4	(141.9)	349.5
			Sponsored Research Support:			
496.7	505.9	529.0	Direct Costs—University	546.1		546.1
219.7	223.0	228.0	Direct Costs—SLAC	260.0		260.0
143.9	156.7	159.0	Indirect Costs	158.7		158.7
860.3	885.6	916.0	Total Sponsored Research Support	964.8		964.8
211.2	207.6	230.4	Health Care Services[f]	274.5	(19.2)	255.3
112.9	105.0	115.0	Expendable Gifts In Support of Operations	120.0		120.0
			Investment Income:			
391.4	378.5	404.2	Endowment Income	424.8		424.8
116.7	74.8	76.6	Other Investment Income	81.6		81.6
508.1	453.2	480.8	Total Investment Income	506.4		506.4
246.8	238.8	247.0	Special Program Fees and Other Income[g]	248.0	3.4	251.4
54.2	50.0	50.0	Net Assets Released from Restrictions	50.0		50.0
2,311.3	**2,285.9**	**2,374.2**	**Total Revenues**	**2,655.1**	**(157.7)**	**2,497.4**
			Expenses			
1,220.7	1,237.0	1,294.0	Salaries and Benefits[d,g]	1,361.1	(6.9)	1,354.2
219.7	223.0	228.0	SLAC	260.0		260.0
			Capital Equipment Expense[b]	63.6	(63.6)	
181.3	195.0	193.0	Depreciation[c]		195.0	195.0
			Financial Aid[e]	141.9	(141.9)	
644.1	680.8	673.4	Other Operating Expenses[f,g,h]	760.2	(69.0)	691.2
2,265.7	**2,335.9**	**2,388.4**	**Total Expenses**	**2,586.8**	**(86.4)**	**2,500.4**
45.6	**(50.0)**	**(14.2)**	**Revenues less Expenses**	**68.3**	**(71.3)**	**(3.0)**
			Transfers			
			Additions to Funds Functioning as Endowment[a]	(15.0)	15.0	
			Transfer to Plant/Student Loan[a]	(46.6)	46.6	
			Total Transfers	(61.6)	61.6	
45.6	**(50.0)**	**(14.2)**	**Excess of Revenues Over Expenses After Transfers**	**6.7**	**(9.7)**	**(3.0)**

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 includes actual cash payments made for pension and post-retirement and other benefits in the current period. For 2004/05, budgeted expenses are expected to exceed GAAP expenses by $8.6 million.

e) Reclassify financial aid. Student financial aid is required by GAAP to be shown as a reduction of revenue. In the Consolidated Budget, financial aid is reported as an operating expense. Accordingly, $141.9 million of student financial aid expense is reclassified as a reduction of revenue in the Statement of Activities.

f) Adjust Health Care Services. For GAAP purposes, Health Care Services revenues received from the hospitals are reported net of expenses that the hospitals reimburse to the university. The Consolidated Budget presents the revenues and expenses on a gross basis. This adjustment reclassifies $21.8 million from Other Operating Expenses to Health Care Services revenues. The Health Care Services revenue also has an offsetting adjustment of $2.6 million for income from the hospitals for capital-related projects, which are not included in the Consolidated Budget.

g) Include Sierra Camp LLC. Activities of the Sierra Camp, a wholly owned university entity, are consolidated in the Statement of Activities, but are not included in the Consolidated Budget. This adjustment adds $3.4 million in Special Program Fees and $1.7 million to each of Salaries and Benefits and Other Operating Expenses.

h) Adjust for difference in treatment of debt service. The Consolidated Budget reflects as Other Operating Expenses the use of unit funds to cover repayment of their respective debt service. This includes repayment of principal and interest expense computed at a pre-established pooled interest rate. The Statement of Activities treats as expense only the external interest accrued on the university's outstanding indebtedness. Repayment of principal is treated as a capital transaction (reduction of outstanding indebtedness when payment is made to our bondholders.) Therefore, Other Operating Expenses on a Consolidated Budget basis must be reduced by $48.9 million to reflect the difference in the treatment of principal repayment ($49.8 million) and the additional external interest expense ($0.9 million).

In summary, the impact of these adjustments decreases the Consolidated Budget's projected $6.7 million surplus by $9.7 million, resulting in a projected deficit of $3.0 million in the Statement of Activities.

Section 2
Academic Initiatives and Plans

This section focuses on the programmatic elements of the budget plan, describing the principal planning issues in the academic areas of the university.

Graduate School of Business

The Graduate School of Business (GSB) will remain under a high degree of competitive and financial pressure in 2004/05. Competition to attract the best people to the GSB, particularly faculty and students, remains very high. While the school has made some difficult decisions to contain costs over the last year, the GSB will continue to invest in the key elements of its program: recruiting and retaining faculty, supporting research centers, and supporting key services for students and alumni.

Research Centers

The mission of the GSB is to create ideas that advance and deepen the understanding of management, and, with these ideas, develop innovative, principled, and insightful leaders who change the world. At the GSB, there are four critical components to a complete general management education: leadership, entrepreneurship, global awareness, and social accountability. Leadership means taking full responsibility for changing an organization for the better. To develop this skill, students must understand their own strengths and weaknesses, and learn how to motivate and inspire others. Entrepreneurship can mean starting a business; it also means acting with the perspective of an owner of a business, whether you are managing it, advising it, or investing in it. Global awareness means knowing what it takes to be a world-class organization, and how to build one that spans multiple countries, cultures, and economic or political systems. Finally, social accountability means being aware that businesses are not only economic institutions, but also social institutions with responsibilities that extend beyond financial considerations. To be profitable in the long term, businesses and their leaders must continue to earn the trust and confidence of society.

It is around these four critical components of general management that the school continues to invest in its research centers: the Center for Leadership Development and Research, the Center for Global Business and the Economy, the Center for Social Innovation, and the Center for Entrepreneurial Studies. Each center provides a focal point for teaching, research and community engagement in a particular area of faculty interest. GSB faculty find these centers helpful in terms of funding research, developing new cases and courses, collaborating with Stanford faculty outside of the GSB, and involving the communities who are interested in the work of these centers.

The school is currently raising funds for two new centers.

- 2003/04 was the pilot year for the Center for Leadership Development and Research (CLDR) and plans are underway to expand certain programs over the next two years. The center offers structured leadership development opportunities that improve student self-awareness and provide the skills students need to continue growing and adapting throughout their careers. Other activities include research and topical programming to bring together scholars, practitioners, and students to examine leadership issues.
- In May 2004, the school will launch the Center for Global Business and the Economy (CGBE) with an inaugural conference, Global Business and Global Poverty. The center encourages partnerships between the school and global managers, and supports research, teaching, and course development on issues related to global business and the economy.

In addition, the school's other centers continue to be productive and enjoy success.

- The Center for Social Innovation (CSI) secured initial funding from foundations and alumni and has expanded activities in the past year. The center is both cross-disciplinary and cross-school. Recent activities include the Executive Programs for Nonprofit Leaders; the launch of the school's first journal, the Stanford Social Innovation Review, which has exceeded subscription expectations and is virtually the only publication in its field; 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. The Public Management Program (PMP), which fosters courses and student programs, supports the entire curriculum with courses related to social responsibility. Nearly a quarter of the graduating class last year chose to earn enough credits in this area to qualify for the PMP certificate, up significantly from just five years ago. The Stanford Management Internship Fund, which supports MBAs who work with nonprofit organizations during their summer internships, and the Alumni Consulting Teams, which provide pro bono advice to nonprofit organizations, are also under CSI's umbrella.
- The Center for Entrepreneurial Studies (CES) continues to support student programs and internships, faculty teaching, case development and alumni outreach, and to host a well-attended annual conference.

In addition to teaching and research, other programmatic priorities for the upcoming academic year include student services, alumni services, executive education, and continued partnerships with the university.

- Student Services – The school continues to offer new programs, courses, and services for students. The demand for career services remains very high. Within the MBA program, the Center for Leadership Development and Research will offer more experiential learning to MBA students through its co-curricular Leadership Development Platform in the next academic year.
- Alumni Services – The GSB is offering more to alumni than ever before. In addition to the very popular reunions and conferences the school has held for many years, there are new opportunities for alumni to engage with the GSB. Through a new service called Lifelong Learning, the school is creating opportunities for its alumni to tap the school's knowledge base throughout their lives. These initiatives have been extended to locations around the country and around the world.
- Executive Education – In June 2004, Executive Education will launch the Stanford Summer Institute, an intensive four-week business program for liberal arts and sciences undergraduates. In addition, new custom programs are being developed for existing and new clients. Finally, the school will continue efforts to develop CD-ROM-based takeaway course modules and educational materials that reflect the interests of its faculty. Efforts to develop and market these types of products jointly with the Harvard Business School have enjoyed some success and will continue.
- Collaboration with University – Finally, the GSB continues to collaborate and develop new initiatives with other schools and faculty at the university. Some recent examples include GSB centers that are funding research conducted by GSB and other university faculty, a new joint degree program with the School of Education; new courses taught to a diverse group of university students in topics such as entrepreneurship, engineering and biomedical devices; and some new courses cross-listed with other schools.

SCHOOL OF EARTH SCIENCES

The School of Earth Sciences is in the middle of a strategic planning process, which will culminate in a vision of the school over the next five to ten years, along with an implementation plan. This plan will likely include shifts in its core disciplines, graduate and undergraduate offerings, and growth of new research centers and scientific facilities.

Goals emerging from the strategic plan include:

- Expand the understanding of the Earth and its history, environmental changes, natural resources, hazards, and sustainability through fundamental scientific and engineering research,
- Provide an intellectual, collegial, and productive environment that supports fundamental research and promotes collaboration,

- Build links between the earth sciences and other disciplines as required to address increasingly complex problems of compelling intellectual and societal importance,
- Strengthen communication with, and outreach to, the university, alumni, and the world,
- Enhance extramural funding and support for research, teaching and outreach,
- Strengthen education programs within the school, and
- Make an understanding of earth processes an essential component of a Stanford education.

In order to achieve these goals, many different strategies and tactics will be developed and implemented. Near-term focus will be placed on building upon work already begun in some of the following areas: expanding undergraduate recruiting efforts and program offerings; developing a school-wide Ph.D. program and building the endowment for the Interdisciplinary Program in Environment & Resources (IPER); continuing and expanding the school's leadership role in Stanford's Environmental Initiative and Institute; developing a Center for Computational Geosciences; reorganizing and increasing support for advanced analytical facilities; and building a rigorous communication and outreach program to raise the visibility of the school and the work done here.

Details on some of these school priorities for the upcoming year follow.

Stanford's Initiative on the Environment

The School of Earth Sciences is playing a leadership role in Stanford's environmental initiative. The school has contributed significantly to the establishment of the Institute for the Environment, planning for an Environment and Energy building, and the coordination and articulation of a seven-school environmental initiative that is part of the comprehensive campaign. Programmatically, Earth Sciences will play an integral role in the research and teaching programs of the Institute, leveraging the school's expertise in water, energy, and environmental science and engineering to further develop interdisciplinary connections through the Institute with the Schools of Engineering, Law, and Humanities and Sciences and the GSB. Earth Sciences' two interdisciplinary degree programs, Earth Systems and IPER will provide the educational core for the Institute.

Interdisciplinary Program in Environment and Resources (IPER)

This interdisciplinary Ph.D. program is now in its second year and is attracting outstanding applicants. For 2004/05, the program received over 120 applications from exceptional candidates for only five slots. Anticipated enrollment for next year will be 18 graduate students. Initial funding from the Luce Foundation will be exhausted by next year, so aggressive fundraising has begun to raise funds needed to support the program in the future. In addition, the school is trying to secure and outfit permanent space to house the program.

Facilities

An area of special note is that of space. The school is addressing issues of storage, graduate student space, and shared research facilities. It is the school's hope that it can achieve some of its strategic goals of fostering cross-school collaboration by reallocating and re-purposing space for activities that are in line with interschool and interdisciplinary activities.

The school's vision is that it will become the world leader in integrated earth and environmental sciences and engineering. As the strategic plan becomes finalized, the school will readjust its priorities to ensure that decisions and actions are leading towards the goals articulated in the plan and achievement of that vision. The school has made a strong beginning to that process, and is committed to marshaling its financial resources to meet those goals and achieve that vision.

School of Education

Over the next year the School of Education will focus on three programmatic goals: (1) to make existing academic programs more efficient and effective; (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 areas of learning and technology and leadership. To meet these goals, new outside funding will be needed to compensate for budget reductions of the past three years.

Academic Programs and Leadership Initiatives

In 2003/04 the school designed a new Masters program, Policy, Organization, and Leadership Studies, that emphasizes the organizational and policy context of education. The goal of the program is to prepare students to act as successful participants, leaders, and change agents in a range of educating institutions, including traditional, charter, and private schools;

nonprofit organizations; businesses, colleges and universities; and public sector agencies. The first class of students will be admitted in 2004/05.

This new program builds on several leadership initiatives recently launched by the school. The joint MBA/MA in Education Program, designed to train individuals to bring expertise in management and educational research to leadership roles in private and public educational institutions, was created two years ago and is believed to be the only joint program of its kind. The Stanford Educational Leadership Institute, a partnership between the School of Education and the Center for Social Innovation at the GSB, provides educational leaders with the support and tools they need to design and manage schools as high-performing organizations and draws upon knowledge from both business and education. School and community partnership programs with a leadership component include both the School Redesign Network and the John Gardner Center for Youth and Their Communities. A research project on leadership, launched in the spring of 2004, focuses on the assessment of professional development programs for school principals. The School of Education hopes to build upon the synergy created by trying to redesign schools so leaders can be effective, and trying to develop effective training for the leaders. The possibility of expanding efforts in the area of leadership (e.g., creating a summer professional development program for principals) and creating a center that would integrate and create closer links among the various leadership programs is currently being considered.

Several years ago the school put its Prospective Principals Program on hold and continues to study how a unique program can be developed to train highly competent principals. The program will be restarted only if the school can offer a substantively stronger program than those offered by public colleges and universities.

Improving Education and Communities for Youth

The School Redesign Network helps educators build schools that are structured to ensure student success. A growing number of educators and policymakers believe that today's large schools need to be replaced with smaller schools that are better designed to support teaching and learning. The Redesign Network is a learning collaborative that helps school leaders to develop a broader knowledge base about school design, teaching and learning, curriculum and assessment, and a deeper understanding of the features of schools that have been successfully redesigned to support excellence and equity.

The Gardner Center for Youth and Their Communities works in close partnership with community members – both youth and adults – to build communities that work for youth, and to develop young people who will grow up to lead them. The center was created to develop new knowledge, practice, capacity, and leadership around youth development and learning. A central goal of the center is to develop and disseminate effective strategies to cultivate leadership capacity within the youth of the communities involved in the center.

To address a severe space shortage and to gain visibility for partnership programs with practitioners and community leaders, the school hopes to begin construction in the spring of 2005 to remodel the Old Bookstore to create a Center for School and Community Partnerships which will serve as headquarters for both school redesign efforts and the Gardner Center.

Other projects that involve sustained partnerships with practitioners and policymakers include:

- Policy Analysis for California – a cooperative effort with UC Berkeley's School of Education to provide analysis and assistance to state policymakers,
- Stanford Center on Adolescence – a research center that 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 that 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.

Learning and Technology

The school offers both a Masters and a Doctoral program in learning and technology. Many faculty members collaborate on projects within the Stanford Center for Innovations in Learning (SCIL), directed by School of Education Professor Roy Pea. And to keep pace with California credentialing requirements and 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 Programs. 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.

School of Engineering

The School of Engineering is deeply involved in several new initiatives that will continue its leadership in engineering research and education. Virtually all of these initiatives are multi-disciplinary 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 technology, it plans to invest significant resources in programs focused on bioengineering, environment and energy, nanotechnology, photonics, and computational mathematics and engineering.

The new Bioengineering Department, which reports to both Engineering and Medicine, has been created. A chair and co-chair have been appointed, degree-granting authority has been approved by the Faculty Senate, faculty searches are under way, and graduate students are being admitted for September 2004. Curriculum development and other teaching programs are being actively worked on. 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. The Global Climate and Energy Project (GCEP) is already having a remarkably renewing effect on several departments, particularly Mechanical Engineering, Civil and Environmental Engineering (CEE), Materials Science and Engineering, and Chemical Engineering. New research projects have been initiated, planning for faculty hires now includes opportunities in the energy technologies area, and student interest is strong. The university-wide initiative on the environment is having a profound effect on the CEE department, which is in the process of reinventing itself around a sustainability theme.

Nanotechnology is a very broad and frequently over-hyped 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 Stanford Nanofabrication Facility (SNF) that shared equipment facilities not only make economic sense, but also are a way to build multi-disciplinary relationships and to create a community of scholars. The school has made great strides in enhancing the SNF 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 Synchrotron 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 of Engineering feels prepared to seize these opportunities.

The challenges Engineering faces in the short term are those associated with the budget issues the entire institution is facing. The School of Engineering 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 for the future. There are also obviously substantial financial needs to fund new initiatives going forward. These are the current high priorities for the school's development office.

Hoover Institution

In 2004/05, 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 active 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 promote vigorous dialogue.

The Institution's research program continues its focus on nine institutional research 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 sixth year of a multi-year effort led 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 in examining specific issues relating to international security.

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

The Hoover Library and Archives continues to pursue 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. As an example, a multi-year effort to microfilm and preserve the archives of the Kuomingtang party in Taiwan has been initiated.

An area of special importance is the expanded effort to preserve the unique materials collected during the twentieth century to insure against loss through damage, material deterioration, and normal wear and tear. To that effect physical preservation activities are increasing. Additionally, a vastly expanded digitalization program aims to make the collections safer and more readily accessible to users on-site and over the internet.

Hoover fellows and other scholars are also being encouraged and supported in their research efforts based on material found in the archives. Original documents found in Hoover's Russian/CIS collection serve as the basis for a series of books published in both English and Russian, and extraordinary interest in the Radio Free Europe/Radio Liberty archives has resulted in a major international scholarly conference planned for 2004/05.

With the explosion of round-the-clock news cycles; global satellite, cable and broadband media information access; and increased attention given to public policy issues, competition for audiences seeking relevant data continues to intensify. The objective of the Institution's communications and outreach functions is to promote the ideas and scholarship of Hoover fellows, publicize the holdings of the library and archives, and promote accessible dialogue on important policy issues.

Recent and proposed new communications activities have focused on the internet, periodical publications, radio, and engagements with print and broadcast journalists. The Hoover Institution communications program includes:

- Weekly Essays, a series of op-eds by Hoover fellows that appears in a number of periodicals, is syndicated to newspapers and distributed internationally,
- Books, essays, and articles written by Hoover scholars appearing in the popular press, newspapers, and scholarly journals and on the Hoover website,
- Opinion articles by Hoover fellows appearing on the op-ed pages of major newspapers, magazines, and periodicals, and on the internet,
- The Media Fellows program, which provides working media the opportunity to interact with the circle of resident Hoover fellows on site at the Hoover Institution,
- Periodical publications: China Leadership Monitor, Hoover Digest: Research and Opinion on Public Policy, Education Next: A Journal of Opinion and Research, and Policy Review,
- Hoover's weekly television program, Uncommon Knowledge, broadcast and distributed by PBS, Webcast on demand over the internet, and broadcast on radio around the globe by National Public Radio Worldwide and Armed Forces Radio,
- Television and radio appearances by fellows on national and local news, public information forums, and call-in radio programs, and
- News releases and daily reports detailing the intellectual product of the institution via Hoover's quarterly newsletter and on the Hoover home page on the World Wide Web.

Facility enhancements are designed to support the programmatic needs of the institution and the university. In 2004/05, construction of a state-of-the-art "conference room in the round" will be completed. This room will feature circular, tiered seating for up to 50 people and will provide capability for live, two-way video and audio teleconferencing and state of the art multimedia presentations. Each of 40 fixed seats will be equipped with high speed computer and internet access through an internal network. This room should greatly enhance the university's conferencing capacity.

School of Humanities and Sciences

In 2003/04, the School of Humanities and Sciences (H&S) carried out a larger than usual number of searches to fill open positions in important areas throughout its 28 academic departments. As a result, the school will welcome several dozen new faculty colleagues at the beginning of the 2004/05 academic year. In addition to strengthening core departments throughout the school, H&S is now in the third year of building new programs in astrophysics and archaeology. Each is becoming a home to exciting new research and educational programs, and creating new opportunities for interdisciplinary and interdepartmental work. In the coming year, ground will be broken for new facilities for these two initiatives, providing state-of-the-art space for faculty and students working in these programs.

Additionally, two other major initiatives are now in their early stages. One aims to create a new life for the arts at Stanford. The school seeks to make offerings in the three arts departments—Art and Art History, Music, and Drama — more vibrant and enriching for the entire campus community. Through these departmental efforts and the programs at the Cantor Art Center, and in partnership with Lively Arts, H&S aims to make the arts at Stanford an increasingly important way to reach out to neighbors in the community. As part of the Arts Initiative, the school is developing a new interdisciplinary program in Film and Film Studies. The program will extend Stanford's tradition of combining scholarship and practice. It will build educational programs that span from film theory to film making, and that bridge to the other arts, to literatures, and to Engineering and other schools at Stanford.

The second initiative will enhance Stanford's already-considerable strength in international studies. Within H&S, the school will initiate a combined division of International, Comparative and Area Studies. This new division will support existing area studies programs, enable the school to begin new initiatives such as Islamic Studies, and form a locus to interact with partners throughout the university, such as the Institute for International Studies. One particular duty — and pleasure — for the School of Humanities and Sciences within the overall university is that it represents so many aspects of international study – languages, arts, religions, history, literature— and thus supports, in educational depth, the understanding that underpins and benefits the policy and outreach work of colleagues elsewhere at Stanford. H&S hopes to create more opportunities for undergraduates to study international topics in disciplines across the school in the next few years.

In order to continue to attract outstanding graduate students, H&S has established more robust and competitive graduate aid packages for all Ph.D. students. It has also worked with departments to increase the diversity of its graduate student population, and is seeing an increasing number of students from traditionally underrepresented groups in its entering Ph.D. cohorts. At the undergraduate level, the school's Curriculum Committee has begun a new effort to examine and strengthen all departmental and interdisciplinary (IDP) majors. Three departmental majors (Chemistry, History, and Psychology) have been reviewed to date, and a systematic effort has been launched to strengthen the IDPs through increased participation by tenure line faculty. Faculty ability to contribute to IDP curricula has also been increasingly incorporated into relevant faculty recruitment efforts. As it moves forward, H&S will continue to balance disciplinary strength with interdisciplinary opportunity, further enhancing this important characteristic of the university. Maintaining this creative balance requires careful choices and clear priorities in allocating resources, and this will remain a challenging goal in the coming year. The school's ongoing fundraising efforts will likewise seek both to strengthen its core, and to fund innovation and foster new interactions.

School of Law

The Law School has enjoyed great success over the past five years. It has just about completed the first major renovation of the school's physical plant in 25 years, including a complete modernization of the 16-classroom academic building, and a renovation of the law library to create a spacious modern reading room. The Law School has retained a significant number of faculty and appointed 11 new professors. It has built and/or strengthened a number of academic programs. The Law School launched new centers for Internet & Society, E-Commerce, and Biolaw. It developed a joint Stanford-Yale Junior Faculty Forum to identify and mentor promising new legal scholars. It launched a new Stanford Community Law Clinic in East Palo Alto to help serve the legal needs of impoverished clients in neighboring communities, and expanded clinical offerings to include community law, cyberlaw, civil rights law, criminal prosecution, education advocacy, environmental law, and Supreme Court litigation. It introduced a new LLM degree. It has met budget reductions in excess of $1 million while preserving top quality support to its faculty and students.

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 38 professors to its historic level of 45, emphasizing the hiring of junior faculty members and specialists in underrepresented fields such as public law and public policy, including constitutional law and administrative law; environmental and natural resources law and policy; international law and business; in-house clinical education, an area in which the school is sorely lacking compared to peer schools; and the empirical study of law, in which the Law School has existing faculty strengths and tremendous future potential to create lasting and valuable research,
- Build its clinical faculty line from two to five 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,
- 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 for existing programs that are essential to maintain its competitive position in relation to peer schools, including:

- Summer research support to faculty members,
- Housing assistance to recruited faculty members additional to university programs,
- 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

During 2003/04, the School of Medicine made significant progress in its strategic plan for the 21st Century, called "Translating Discoveries." In the coming fiscal year, initiatives associated with the plan will be further designed and implemented. The major areas of emphasis are described below.

Education

The new medical student curriculum was launched with the class entering in fall 2003. During 2004/05, further development of the new medical student education will include the rollout of scholarly concentrations, development of the third and fourth-year curricula, and improvements to student and curriculum evaluations. The new medical school application system, MESA, was introduced in 2003/04, transforming a previously paper-intensive process into an all-electronic, paperless system. During 2004/05 the School of Medicine's applicant review and acceptance criteria will be reevaluated and, if necessary, revised to better reflect the objectives of the new curriculum.

For the biosciences graduate education and postdoctoral training programs, emphasis in 2004/05 will be placed on increasing the exposure of graduate students and postdoctoral scholars to clinical medicine and translational research, advancing the postdoctoral scholar/scientist career as an attractive choice, promoting increased diversity among postdoctoral scholars, and fostering successful career transitions from postdoctoral scholar to independent scientist. The school will also initiate a career counseling center for graduate students and postdoctoral scholars.

For residents and clinical fellows, 2004/05 goals include developing research opportunities similar to the scholarly concentrations developed for medical students, providing opportunities for increased scholarship, developing minimum program requirements and standards for all postgraduate medical education programs, and implementing a more "customer service" oriented administrative structure for managing appointments.

Interdisciplinary Research and Education Programs

In 2003/04, directors for three of the four new Stanford Institutes of Medicine – Neuroscience, Cancer and Stem Cell Biology and Medicine, and Cardiovascular — were appointed, signaling the formal start of the new interdisciplinary programs that will bring together scientists and clinicians in focused areas of the biosciences to foster the translation of research discoveries into patient care advances. Recruitments for new institute members are underway and will constitute a significant portion of new tenure line appointments in 2004/05. The selection and appointment of the fourth director for the Stanford Immunology, Transplantation and Infection Institute will take place in 2004/05.

The school will make additional investments in 2004/05 in the further development of Bio X and the new Department of Bioengineering – two programs that bring together disciplines inside and outside the School of Medicine. The school will share in the further build out of research space in the Clark Center for new faculty recruitments in Bioengineering and will welcome the first incoming class of graduate students in this department in fall 2004.

In 2004/05, the university, under the leadership of the School of Medicine, will seek official designation from the National Cancer Institute (NCI) as a Comprehensive Cancer Center. A Comprehensive Cancer Center has depth and breadth of research activities in basic research; clinical research; and prevention, control, behavioral, and population-based research, while also exhibiting a strong body of interactive research that bridges these scientific areas. In order to receive recognition as an NCI-designated Comprehensive Cancer Center, the center must meet these scientific requirements as well as provide outreach, education, and information on cancer to the community it serves. A significant milestone in the development of the center was the opening of the new clinical cancer center building and the recruitment of a clinical cancer center director in spring 2004. The Comprehensive Cancer Center structure fosters interdisciplinary collaborations within specific areas of cancer focus, such as lymphoma and Hodgkin's disease, cancer cell and tissue imaging, and cancer immunology. The application for NCI designation will involve faculty from almost all of the basic and clinical science departments, as well as from the schools of Engineering and Humanities and Sciences.

Clinical Centers of Excellence

In 2004/05, the school will build patient care programs in the areas that support the Medical Center's identified "centers of excellence" and critical programs and services. The centers of excellence, which closely tie to the focus of the school's interdisciplinary institutes, include neuroscience, cardiac services, transplant, orthopedics and cancer. The school anticipates recruiting over the next 4 years an additional 60 to 70 medical center line faculty and clinician-educators to support the Medical Center's patient care programs.

Technology

The school is making a significant investment in its technology infrastructure. In 2004/05, efforts will include the implementation of a "trusted network" model to enhance medical school security, continued implementation of the new School of Medicine Web architecture and supporting systems, development of an integrated and centrally managed school wireless network, the development of a Knowledge Management strategic plan, the continued development of a translation research data repository and the development of plans for a medical school Center for Clinical Informatics.

Facilities and Capital Plans

Facilities planning and design will continue in 2004/05 for the first of the Stanford Institutes of Medicine buildings (SIM 1) and the school's new education and knowledge management facilities. To accommodate growth of ambulatory clinical programs and clinical research, the school is investigating the lease of significant off campus property in conjunction with the Medical Center. Off campus leases for research space to accommodate expansion of the Comprehensive Cancer Center and the interdisciplinary institutes are also being evaluated in the near term.

Pursuit of its strategic initiatives will require the expenditure of significant resources in 2004/05. The School of Medicine anticipates that its revenue growth will be adequate to cover the projected increase in operating expenses, but will not cover all of the investment in new initiatives. These initiatives will require a draw down of reserves – a necessary investment for the development of the medical school of the 21st Century.

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), Science Outreach, Environmental Health and Safety (EH&S), and Research Compliance.

At the direction of the Provost's task force on campus diversity and with the support of a grant from the Irvine Foundation for Campus Diversity Initiatives, the Office of the Vice Provost and Dean of Research and Graduate Policy now coordinates activities in this regard with all Stanford's schools.

The Stanford Graduate Fellowship program, administered by the Dean of Research, currently supports 363 outstanding graduate students in 36 fields in science, engineering, and the social sciences.

The thirteen independent laboratories, centers, and institutes reporting to the Dean of Research encourage and support Stanford's interdisciplinary research and scholarship. 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. In 2002/03, the organizations reporting to the Dean of Research accounted for 18% of Stanford's research volume (excluding SLAC). The newest independent programs include the Global Climate and Energy Project, the Kavli Institute for Particle Astrophysics and Cosmology, and the Stanford Institute for the Environment.

The Global Climate and Energy Project (GCEP) is working to develop technologies for supplying the energy required by the developed and the developing world while at the same time reducing greenhouse emissions. With a group of global companies (including ExxonMobil, GE, Schlumberger, and Toyota) committing funding of $225 million over 10 years, GCEP will begin a sustained effort to create a path toward a long-term energy future with much lower greenhouse emissions.

The Kavli Institute for Particle Astrophysics and Cosmology (KIPAC) was founded in September 2003. Beginning in October 2005, it will be housed in the new Fred Kavli Building, constructed with a generous gift from Fred Kavli and the Kavli Foundation, on the SLAC site. The mission of the Institute is to bridge the theoretical and experimental physics communities, and bring their combined strengths to bear on some of the most challenging and fascinating problems in particle astrophysics and cosmology. KIPAC scientists work on a variety of theoretical and experimental research issues, and currently have three major projects under their consideration: Supernova Acceleration Probe (SNAP), Large Aperture Synoptic Survey Telescope (LSST), and Gamma Ray Large Area Space Telescope (GLAST).

The Stanford Institute for the Environment (SIE) addresses one of the major challenges of the 21st Century: providing for the needs and health of people today and in the future—water, food, energy, and shelter—while sustaining the life support systems of Earth—water, air, climate, and ecosystems. The SIE will mobilize faculty from all of Stanford's schools to address the critical environment and resource problems of our age. The institute will promote an environmentally sound and sustainable world by developing creative solutions to these challenges through the integration of science, technology, and policy; educating the next generation of leaders and problem solvers; and actively collaborating and facilitating dialogue with key public and private leaders and the broader community. Through interdisciplinary research, education, and outreach, the SIE will help assure that the current generation has its needs met while preserving the Earth's resources and global systems for the benefit of future generations.

Vice Provost for Undergraduate Education

The Office of the Vice Provost for Undergraduate Education (VPUE) promotes the highest quality education for all undergraduate students at Stanford. VPUE programs engage first- and second-year students in the excitement of scholarly inquiry, and encourage the formation of faculty-student mentoring relationships around mutual intellectual interests for students during all four undergraduate years. VPUE reinforces collaboration and partnerships among faculty across the university by nurturing a culture of excellence in teaching and mentoring.

Modest budget reductions for 2004/05 are accompanied by structural reorganization that consolidates and rationalizes the delivery of academic services. Innovative new programs reflect the priority of improving student access to and participation in VPUE academic and curricular opportunities. Program expansion in 2004/05 implements the second of three phases of course development for the Writing and Rhetoric Requirement (WRR) effective for the Class of 2007. The 2004/05 budget also strengthens the infrastructure for instruction in writing and oral communication and for Undergraduate Research Programs toward the goal of preparing all students for working with faculty on scholarship and research.

Initiatives in diversity outreach and advising demonstrate the VPUE commitment to the goal of optimal student participation. Analysis of student participation in introductory seminars and undergraduate research raises a number of questions: Who is not participating? Why not? To what extent are students matched with opportunities and services that would most benefit them?

The VPUE 2004/05 budget supports the continuing appointment of the Special Assistant for Diversity Outreach who began in 2003/04 to work with VPUE in implementing recommendations of the Undergraduate Task Force of the Provost's Diversity Action Council. For this initiative, diversity is construed broadly to include racial and ethnic identity as well as membership in groups defined by attributes such as gender or varsity athlete. The Special Assistant works to identify students who typically do not participate in VPUE programs and helps them take full advantage of VPUE services and opportunities by building partnerships with offices and colleagues across the university.

In 2003/04, VPUE appointed the first Faculty Director of Advising to oversee the development of new approaches to advising that would complement the transformation of the curricular landscape accomplished over the past eight years. The 2004/05 budget supports a pilot residential advising program in Wilbur Hall. Along with increased numbers of faculty advisors for freshmen, a new Residential Academic Director will coordinate academic resources for Wilbur Hall residents. The Academic Director works on site and is therefore more easily accessible to students for informal, individual consultations. The goal is to provide more timely and proactive advising that directs students to academic services, such as tutorials, and to curricular opportunities, such as introductory seminars, research, and honors.

Another advising initiative reorganizes tutorial and new student services. Tutoring for introductory general education courses such as chemistry, mathematics, and economics, will be administered through the Center for

Teaching and Learning (CTL) to take advantage of the existing relationship between CTL pedagogy experts and the faculty and graduate student assistants. This vertical integration will create opportunities for tutors, professors, and graduate students to build more coherent teaching teams in key areas of general education. Advising services for first-year and transfer students, which were previously distributed across the Undergraduate Advising Center and the Dean of Freshman and Transfer Students office, will be rationalized through a unified administrative structure to provide better coordination. This reorganization will reallocate resources from a dispersed to an integrated model resulting in streamlined student access.

Investment in writing programs continues to grow toward full implementation of the Writing and Rhetoric Requirement in 2005/06. The Advanced Placement exemption from one-quarter of writing instruction ended with the entering class of 2007. All students must now complete two writing and rhetoric courses as well as a Writing-in-the-Major course for a total of three required courses. In 2003/04, 30 new writing and rhetoric courses with an emphasis on oral presentation were offered to over 300 students; this number increases by 60 additional courses in 2004/05. The new courses explore the complex interplay among written, oral and multi-media presentation tools, and teach students how to present their ideas in such varied formats as audio essays for radio broadcast, websites, and poster sessions for research symposia.

The new required courses emphasize written and oral communication as mandated by Faculty Senate legislation. The 2004/05 budget includes attention to infrastructure support for tutorial services in writing and oral communication, and for technology-enhanced classrooms. The Stanford Writing Center, staffed by professional writing instructors and selected undergraduate peer tutors, continues its planned expansion in the 2004/05 budget. In 2003/04 through winter quarter, the Center held more than 1,400 individual appointments, compared with 488 in 2001/02 and 1,013 in 2002/03 for the same period; workshops for classes reached an additional 2,400 students in 2003/04. The Oral Communication Tutorial (OCT) program assigns specially trained advanced undergraduate tutors to each of the new writing and rhetoric classes, enabling every student to receive coaching and individualized feedback on rehearsals of class oral presentations. An unanticipated benefit of the OCT program is the opportunity for the tutors to develop close mentoring relationships with the instructors around issues of pedagogy.

Classroom support has been facilitated by the successful Academic Technology Specialist program in VPUE. The 2004/05 budget expands the level of technical service for classrooms equipped for interactive workshop instruction, in response to the demands of the growing number of required courses that use technology-enhanced classrooms.

Through the Undergraduate Research Programs (URP) office, VPUE encourages faculty and students to work together on research projects by providing grant support for individual faculty, for departments, and for students working on honors. The 2004/05 budget supports enhanced staffing infrastructure for undergraduate research so that faculty and students in social sciences, natural sciences, and humanities can find the corresponding disciplinary specialization and expertise in the URP office. Continuing, steady growth in the amount of grant funds for undergraduate research in 2004/05 responds to the ongoing enthusiasm of faculty members who involve more students each year in supervised projects.

In 2004/05, the research enterprise will be extended into a residential location on a pilot basis during the academic year. For three years, Summer Research College has created a residential environment for over 300 students working on faculty research projects for 8–10 weeks over the summer. Since 1993, Honors College has invited about 150 students from 15-20 departments to live together on campus in September while they get a head start on their honors projects. The pilot Potter College is for 90 sophomores, juniors and seniors with an interest in research, honors, writing and other creative arts. Located in Sterling Quad adjacent to Freshman Sophomore College, Potter College will benefit from proximity to the faculty dean's house for dean-hosted community events. A faculty affiliates program is part of the plan for enhancing Potter College's focus on research. This pilot program builds on the success of the Freshman Sophomore College and the South Row Faculty Dean's house in integrating social and intellectual experiences in a residential setting.

Stanford Introductory Seminars (SIS) continue to be the cornerstone of VPUE programs, providing opportunities each year for over 240 faculty members to teach over 2,500 first- and second-year students in small courses centered on common intellectual interests. The vitality of this educational experience establishes a foundation for students and faculty alike to seek further intellectual connections and mentoring relationships. A sign of faculty commitment to the community of peers in SIS is the stability of participation in faculty discussions sponsored by the Freshman and Sophomore Programs office. Department chairs praise the SIS program as a testing ground for innovation in curriculum and teaching; encouragement for and expertise to guide these experiments come from faculty development activities attended by over 350 faculty members each year. The 2004/05 budget continues to support creating and sustaining the community of scholars devoted to sharing teaching practices in introductory seminars.

Building communities of scholars around common teaching experiences is a hallmark of the Office of the Vice Provost for Undergraduate Education. The 2004/05 budget continues to support gatherings for faculty in all areas of undergraduate education, recognizing the crucial importance of nurturing faculty commitment to and enthusiasm for excellence in teaching and mentoring. At the same time, the 2004/05 budget acknowledges the obligation to improve student access to and participation in the academic and curricular opportunities that have helped transform undergraduate education at Stanford over the past eight years.

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 annually from all over the world in the two main research programs of High Energy Physics (HEP) and synchrotron radiation science. The HEP facilities deliver electron and positron beam characteristics unmatched anywhere in the world. The ultra-high intensity x-ray synchrotron radiation at SPEAR3 of the Stanford Synchrotron Radiation Laboratory (SSRL) serves many areas of science including materials sciences, structural biology, and chemistry. The powerful synergy of the two SLAC research programs has led to development of unique capabilities for scientific exploitation, such as the Sub-Picosecond Pulse Source (SPPS).

High Energy Physics

SLAC's main particle physics program is the PEP-II/ BaBar B Factory which examines a cosmological mystery: the crucial matter-antimatter asymmetry that led to the existence of the visible universe. The BaBar collaboration (600 physicists from 10 countries) continues to produce physics of exceptional quality at a prodigious rate. Provided there is sufficient budget, operation for eight and a half months is planned in 2004/05. The run will be followed by a shutdown of about six months, through December 2005, to install major improvements for the PEP-II accelerator and the BaBar detector. These improvements are part of a series of upgrades that is expected to increase the BaBar data sample by a factor of almost 10 by the end of the decade.

The primary focus of the laboratory's future accelerator-based particle physics program is the linear collider (LC), which is also the highest priority new facility for the field of high energy physics. SLAC is a leader in the development of the technologies to realize an electron-positron LC designed to explore the new fundamental physics at the TeV energy scale. Later in 2004, the high energy physics community will make a choice whether to pursue the warm x-band RF technology option for the main linacs of the LC, or whether to pursue a superconducting RF solution. While SLAC strongly supports a design approach for the LC that incorporates warm RF technology, believing that this approach has both a significantly higher energy reach and is the most risk-averse to achieving the physics goals, the laboratory will play a leadership role in the design, construction and exploitation of this facility independent of the technology choice. In 2004/05, the plan is to continue R&D necessary to build an LC at minimum cost, involving the United States and foreign partners in this process.

In the last decade, SLAC's high energy physics mission has broadened into the closely related fields of particle astrophysics and cosmology. The GLAST mission represents SLAC's first major venture into particle astrophysics. GLAST is a space-based gamma-ray telescope that will be launched in 2007. The GLAST research program will explore how cosmic accelerators work and what they are accelerating, including the study of gamma-ray bursts and observations of jets emanating from active galactic nuclei and galactic black holes. In addition, GLAST will search for Dark Matter in our galaxy. The telescope is being built at SLAC by an international collaboration led by the Stanford team (SLAC, Physics Department and HEPL). In the summer of 2005, the instrument will be completed and shipped out for further testing prior to integration with the satellite. In addition to GLAST, the new Kavli

Institute for Particle Astrophysics and Cosmology is expected to bring new projects and research opportunities to SLAC.

Synchrotron Radiation Science

Synchrotron radiation science is perhaps the most rapidly expanding element in the changing face of sciences at SLAC. The new synchrotron light source, SPEAR, has just been installed and commissioned. Users have been brought back on-line in less than a year from the time the old machine was decommissioned. SPEAR is a low emittance, high current synchrotron light source that delivers beams whose intensity and brightness are competitive with any light source in the world in its intermediate energy class. SPEAR3 has significant expansion capacity for new beam lines. The first two new beam lines are already in fabrication. The first beam line, funded by the California Institute of Technology with a gift from the Moore Foundation, is designed for macromolecular crystallography. The second one, for the study of materials and nanostructures using microscopy and emission techniques, is funded by the DOE. Both beam lines are expected to be completed in 2006. In the building that houses these new beam lines, about 6,000 square feet of new space will be completed in 2004/05 for the X-ray Laboratory for Advanced Materials at SSRL.

The second strategic component of the synchrotron science program is the development of a completely new class of light sources based upon electron linacs. This has already begun with the Sub-Picosecond Pulsed Source (SPPS) which is delivering 80 fsec pulses of hard x-rays that are being used to gain first experience with the application of x-ray scattering and absorption techniques to study properties of materials on this very short time scale. The next major step is the construction at SLAC of the Linac Coherent Light Source (LCLS), which will be the world's first x-ray free electron laser. LCLS will deliver intense femtosecond coherent x-ray pulses 10 billion times brighter than those from existing synchrotron sources. These extraordinary beams will explore previously inaccessible realms of structural dynamics in the chemical, biological and materials sciences as well as find new applications in nanoscale phenomenology, and atomic and plasma physics. Currently in its design phase, LCLS is expected to begin the construction phase in 2004/05. It takes advantage of the existing infrastructure at SLAC by utilizing the last third of the existing 3 km linear accelerator. LCLS is scheduled to become operational in 2008. The construction cost of about $270 million is funded by the DOE.

Infrastructure

SLAC has initiated a $15.6 million project, funded by the DOE, to replace a significant portion of the aging underground mechanical utilities and to improve the seismic safety of several important research, experimental and computing facilities. The project, currently in the design phase, will begin construction activities in fall 2004.

Section 3

Capital Plan and Budget

This section outlines Stanford University's 2004/05–2006/07 Capital Plan and the 2004/05 Capital Budget. The Capital Plan forecasts $976.8 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 2004/05 Capital Budget, which represents $168.9 million of cash outlays and associated funding of the Capital Plan for the next year.

CAPITAL PLANNING OVERVIEW

Capital Planning at Stanford

Stanford's Capital Plan is a three-year rolling capital project forecast with budget commitments made to the first year, and then only for projects with fully identified funding. The plan is set in the context of a longer-term (10 year) capital forecast for the university. The details of the longer-term forecast (particularly funding sources and schedules) are less clear than those of 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.

Constraints and Limitations

Affordability and Debt:

As was the case last year, this year's Capital Plan has been significantly affected by affordability constraints, debt capacity limits, and challenging fundraising prospects for capital projects. For several projects, a large portion of the funding required is listed either as fundraising goals compiled by the Office of Development (Gifts in Hand/Pledged or Gifts to Be Raised) or as Resources to Be Identified. The Resources to Be Identified are expected to come from sources other than fundraising targets and might include additional school or departmental reserves. 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 university's debt capacity also has decreased in this economic climate, so our very limited supply of available debt has been carefully allocated throughout the Capital Plan, primarily for life safety and code compliance issues, ongoing university facilities operations, and new housing requirements under the General Use Permit (GUP).

Housing Linkage:

One of the key conditions of approval in the 2000 General Use Permit is that for each incremental 500,000 gross square feet (gsf) of new academic buildings, Stanford is required to construct a minimum of 605 units of housing. A significant constraint in the Capital Plan is that not all of the funding necessary for this housing has been identified.

Science, Engineering, and Medical Campus

A major part of the Capital Plan is the Science, Engineering, and Medical Campus (SEMC) initiative. This broad initiative involves a series of eight buildings — Varian 2, the School of Engineering Center (SOE Center), two School of Medicine buildings (the School of Medicine Information and Learning Environment (SMILE) and the Stanford Institutes of Medicine #1 (SIM #1)), Environment and Energy, Biology, Photonics, and Bioengineering/Chemical Engineering. These buildings are being planned as a coherent grouping to be located on the western campus near the Science and Engineering Quad.

Five of these buildings are included in the 2004/05-2006/07 Capital Plan: Varian 2, Environment and Energy, SMILE, SOE Center, and Biology. The forecasted capital need for these buildings ($301.6 million) was determined by our cost benchmarking process and reflects the desire to lower our capital costs. These five buildings represent nearly one-third of the total Capital Plan. The development of the SEMC initiative is heavily dependent upon a successful fundraising campaign, the details of which are being developed.

ANNUAL INVESTMENT IN PLANT ASSETS

Historically, as part of the Capital Plan process, the university performed a high-level review of the adequacy of the investment in our 14.7 million gsf of facilities and compared this investment to the university's annual replacement depreciation. In other words, once a year we asked ourselves if we were keeping up with maintaining our buildings appropriately and avoiding a buildup of deferred maintenance.

Given the potential risk of deteriorating facilities, the university decided this past year to perform a comprehensive and detailed analysis of the adequacy of our investment in both facilities and the campus infrastructure. The university also recognized the need for a tool that accurately assesses both the current condition as well as the future capital requirements necessary for renewal and replacement of the physical plant.

We selected a Life Cycle Planning method, which is based on the key concept that buildings and infrastructure subsystems have known life cycle expectancies, and therefore that maintenance schedules can be predicted. This exercise led to the implementation of a database that will forecast planned maintenance renewal needs for 50 years.

The results of this analysis show that the university's deferred maintenance of $46.8 million is low compared to that of most institutions. This is attributable to the extensive renovations made as a result of the Loma Prieta earthquake and the $40.0 million fund allocation approved by the Board of Trustees in 1995 to reduce deferred maintenance. Additionally, increased funds have been provided for planned maintenance since 1995.

The 10-year forecast for planned maintenance for all campus facilities and infrastructure is $521.8 million, bringing the total deferred and planned maintenance needs over the next 10 years to $568.6 million. The university has identified potential funding sources and adjustments of $484.3 million to meet these needs, resulting in a funding shortfall of $84.3 million or an average of $8.4 million annually. This shortfall is in the areas of housing and dining, utilities (due to debt constraints) and school and department centrally funded maintenance programs. On its own, the centrally funded maintenance program has a $58.0 million gap or an average of $5.8 million per year. The university is looking for ways to close this funding gap and has increased general funds for planned maintenance by $1 million for 2004/2005.

The university will coordinate annual updates to the life cycle database, taking into consideration the completion of the yearly maintenance programs and the reassessment of system conditions and lives resulting from physical inspections. Though this methodology is not an exact science, it provides a good approximation of the university's needs to maintain the physical environment in a condition to fully support teaching and research. The annual results will be reported to management and incorporated into the annual budget and capital planning process.

THE CAPITAL PLAN, 2004/05 – 2006/07

Stanford's central campus, including the Medical School but excluding the hospitals, has approximately 675 major buildings providing almost 15 million gsf of physical space. The physical plant has an historical cost of $3.9 billion and an estimated replacement cost of approximately $5.5 billion.

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

The 2004/05-2006/07 Capital Plan, which includes 29 major construction projects in various stages of development and numerous infrastructure projects and programs, totals $976.8 million. The total cost of the plan falls between last year's Capital Plan, which totaled $837 million and the previous year's plan, which totaled almost $1.1 billion. The table below compares the last three years.

Budget Plan Year [in millions of dollars]

	2002/03	2003/04	2004/05
Design/ Construction	319.9	173.3	256.7
Forecasted	531.7	567.0	594.6
Infrastructure	216.0	96.8	125.5
Total	1,067.6	837.0	976.8

As shown in the above table, the projects in Design and Construction have increased by $83.4 million over last year's plan. This is largely the result of the following Forecasted projects moving into Design and Construction: Varian 2, formerly listed as HEPL Endstation Buildout ($34.2 million); Arrillaga Family Recreation Center ($23 million); Bakewell Seismic Renovation ($6 million); and the Graduate Community Center ($3.8 million). In addition, the Stanford-in-Washington project ($7.6 million) is new to the Capital Plan, and the Law Student Housing project has increased in scope by $9.7 million.

The Forecasted projects shown in the above table have increased by $27.6 million, for the following reasons:

- The Stone Building renovations now listed in the plan are significantly more extensive in scope and include a major renovation to accommodate part of the SMILE program, adding just over $100 million from last year's plan.
- A major new science building has been added to the plan: the Environment and Energy Building ($72.2 million). This building, together with the Varian 2, SMILE, SOE Center, and Biology projects are part of the Science, Engineering and Medical Center (SEMC) group of projects.
- A variety of medium sized projects have been added to the plan. These include the Blood Center ($12 million), SEMC Regional Utilities ($10 million), Maloney Field Bleachers ($4 million), Roble Hall renovation ($11 million) and Crothers ($15.2 million) renovation. Other existing projects have also increased slightly in cost estimates.

These project increases, which amount to about $247 million, have been partially offset by projects moving from the Forecasted phase to Design and Construction phase (as discussed above), by project deferrals, and by reductions in scope for some projects (these total about $220 million). Deferred projects include the Public Safety Annex ($3.1 million) and the Lou Henry Hoover renovation ($7.6 million). The SMILE, Biology, and SOE Center projects have decreased in size and are based upon new benchmark cost targets developed in the last year. They therefore show lower cost estimates than in last year's Capital Plan. In summary, increased costs in the Forecasted project category amount to about $247 million and deferred/decreased costs amount to about $220 million, leaving a net change of about $27 million.

Infrastructure projects have increased by $28.7 million due primarily to the additions to the plan of the Sand Hill Road project ($22.2 million) and Campus Drive widenings ($6.6 million), as well as a clearer sense of additional parking requirements (an increase of $7.8 million). The Capital Utilities Program (CUP) has been held constant and other programs have been deferred where possible.

A summary table of the three-year Capital Plan and expenditures by fiscal year is displayed on the next page. In addition, a detailed list of projects is provided in the tables at the end of this section. These tables list only those projects that require approval by the Board of Trustees – that is, projects $3 million and above in cost.

The Stanford Hospitals and Clinics, Lucile Packard Children's Hospital, and Stanford Management Company 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 and Construction** – The 12 projects in Design and Construction represent $256.7 million (26%) of the plan. Some of these projects went to the Board of Trustees for concept approval as recently as April 2004 and now are in design. Construction on other projects 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. Total forecasted projects include 17 projects totaling $594.6 million (or 61% of the plan). Of these projects, $86.9 million in funding is identified ($13.6 million in current funds,

Summary of Three Year Capital Plan 2004/05-2006/07 (in millions of dollars)

			Project Funding Source						Annual Continuing Costs		Project Expenditures Anticipated Cash Outlay Service				
				Gifts		University Debt									
	Estimated Project Cost	Capital Budget 2004/05	Current Funds[1]	Gifts in Hand or Pledged	To Be Raised	Service Center/ Auxiliary Debt	Academic Debt	Resources To Be Identified[2]	Debt Service	Operations Maintenance & Utilities	Through 2003/04	2004/05	2005/06	2006/07	Thereafter
Projects in Design & Construction	256.7	89.8	48.7	110.6	27.5	21.6	38.1	10.2	4.4	3.2	47.0	89.8	89.6	30.3	
Forecasted Projects	594.6	35.7	13.6	23.0	443.9	11.0	39.3	63.8	4.2	9.5	1.8	35.7	106.9	158.5	291.6
Total Construction Plan	851.3	125.6	62.3	133.6	471.4	32.6	77.4	74.0	8.6	12.7	48.8	125.6	196.5	188.8	291.6
Infrastructure Programs	125.5	43.4	48.0			35.3	30.1	12.0	6.5	0.2		43.4	54.0	28.1	
Total Three-Year Capital Plan 2004/05-2006/07 before Internal Charges	976.8	168.9	110.3	133.6	471.4	67.9	107.4	86.0	15.1	12.9	48.8	168.9	250.5	216.9	291.6
Less: Stanford Infrastructure Surcharge[3]	(35.3)	(4.7)	(35.3)												
GUP Entitlement Fee[3]	(49.0)	(0.6)	(49.0)												
Total Three-Year Capital Plan 2004/05-2006/07 after Internal Charges	892.5	163.6	26.1	133.6	471.4	67.9	107.4	86.0	15.1	12.9					

[1] Includes funds from university and school reserves, and current GUP and SIP funds.

[2] Anticipated funding for this category is through a combination of gift raising and school, department and university reserves, and GUP and SIP funds yet to be identified.

[3] SIP and GUP fees are charged to capital projects. The funds collected are expended on capital projects within the SIP and GUP programs.
The SIP/GUP charges to the buildings have been eliminated to avoid double counting.

$50.3 million in debt, and $23.0 million in gifts in hand or pledged). This amounts to 15% of the total project costs. Of the remaining funds, $443.9 million needs to be fundraised and $63.8 million needs to be identified from sources other than those already mentioned. Due to these funding challenges, construction of many of these projects may not be completed for a number of years. Only those projects with an anticipated concept approval in 2004/05 and a funding plan are considered budget commitments in this rolling three-year plan.

- Infrastructure Projects and Programs – These projects and programs include a new parking structure and the Sand Hill Road project, as well as a number of utility systems, information technology and communication systems, compliance programs, and GUP mitigations. These projects and programs comprise the remaining $125.5 million (13%) 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. For a number of projects not all of the funding sources are known, and this portion of their costs is shown in the Resources to Be Identified column. Although it is our expectation that some of these resources will be identified, it is possible that they may not, and that some projects will have to be cancelled, delayed, or scaled back in scope. The chart below outlines the funding sources for the Capital Plan.

Current Funds

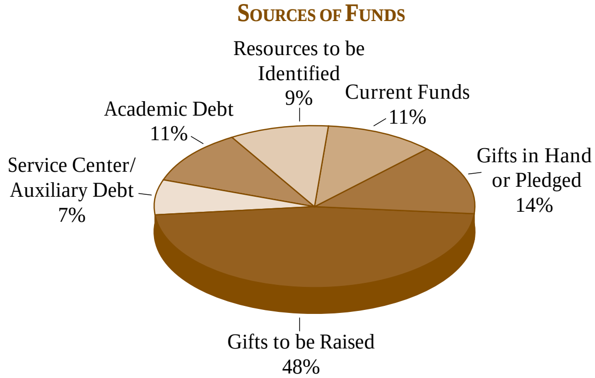
The three-year forecasted plan anticipates that $110.3 million, or 11% of the Capital Plan, will be funded through current funds. These include school, department, and university reserves as well as assessments from GUP Entitlement Fees and the Stanford Infrastructure Program (SIP). GUP Entitlement Fees are assessments levied on capital projects that increase the school's/ department's current core campus space allocation. These fees provide funding for conditions established under the 2000 GUP and the Community Plan. SIP assessments are levied on all capital projects and fund parking, transportation, and campus planning programs.

Gifts

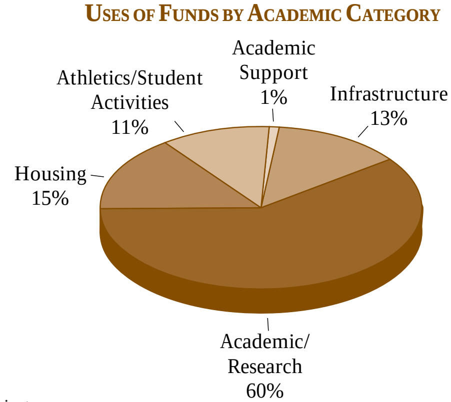
The three-year Capital Plan includes gifts of $605.0 million (62% of the Capital Plan). These gifts are a combination of gifts in hand or pledged ($133.6 million or 14%), and gifts to be raised ($471.4 million or 48%). The Office of Development participated in the Capital Plan process and determined that the gift targets listed are feasible. However, given historical levels of annual giving for buildings, it is likely that the gift timetable will be stretched out.

The Capital Plan 2004/05 – 2006/07: $976.8 Million[1]

Sources of Funds



Uses of Funds by Academic Category



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

Debt

Debt funding reliance has dropped significantly in recent years, although it remains one of the key financing sources for the Capital Plan. The amount of debt to be allocated was carefully considered after prioritizing university needs and assessing our ability to service the debt. Approximately 18% of projected expenditures in the plan will be funded by $175.3 million of debt. Of this amount, $67.9 million is auxiliary and service center debt, principally Residential and Dining Enterprises and the Capital Utilities Program. Another $107.4 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 the projects in the Capital Plan. The Resources to Be Identified category amounts to $86.0 million in the plan, or 9% 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 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 the previous page 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 17 Academic/Research projects in the plan amount to $594.0 million, or 60% of the total plan.

Projects in Design and Construction:

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

- The Varian 2 building, formerly listed as an Endstation Buildout project, will house Hansen Experimental Physics Laboratory (HEPL) and Astrophysics programs in 69,805 gsf located between the current Varian building and the Moore Materials Research building. This building is part of the SEMC initiative.
- The School of Medicine's 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 20,520 gsf.
- The Kavli Institute for Particle Astrophysics and Cosmology is a 25,000 gsf 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 Music Department.
- The Stanford-in-Washington project is a renovation and addition to the School of Humanities and Sciences' Washington, D.C. facility.
- The renovation of Building 500 will create a home for the Humanities and Sciences' 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 (12,000 gsf) will house faculty, visitors, postdoctoral students, graduate 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 both new and renovated buildings and a major utilities project.

Science, Engineering and Medical Campus (SEMC) buildings forecasted include a new School of Medicine Information and Learning Environment building (SMILE) (120,000 gsf requested), a new Environment and Energy building (120,000 gsf requested), the School of Engineering Center (130,000 gsf requested), and a new Biology building (100,000 gsf requested). An extensive utilities project is required to support this initiative.

Other projects in the Medical School include seismic and infrastructure upgrades of the Grant, Lane, Edwards and Alway buildings (414,000 gsf), 95,000 gsf of renovations in these same buildings to accommodate the SMILE program needs, and the Blood Center, a 50,000 gsf project being developed off-campus in collaboration with the hospitals.

Other forecasted Academic/Research projects on campus include a new GSB classroom building (gsf to be determined), a renovation and upgrade of the Old Bookstore (the former Career Planning and Placement Center) 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 $146 million, or 15% 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, although most of these projects fall below the $3 million limit and are not included in this plan.

Projects in Design and Construction:

The Law School Student Housing project is planned to provide up to 600 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, as well as renovations to Roble and Crothers Halls.

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 $105.4 million, or 11% of total Capital Plan expenditures.

Projects in Design and Construction

The following three projects are in Design and Construction:

- The Maples Pavilion renovation will expand the existing facility by 18,200 new gsf and renovate the existing space in order to better meet the needs of the sports teams that use the facility and the fans that attend sports events. The building's systems, seismic, and code needs will be addressed as well.
- The new Arrillaga Family Recreation Center (74,796 gsf) will be located on the former site of the Encina Gymnasium. This facility is designed to house a variety of Stanford's recreation and club sports as well as an academic resource center, the Health Improvement Program and a sports medicine clinic.
- The new Graduate Community Center, located in Escondido Village and comprising 12,000 gsf, will become a focal point of graduate student life, housing social, academic, multipurpose and administrative spaces.

Forecasted Construction Projects:

Additional projects planned in the near future for Athletics include the Maloney Field Bleachers project and a renovation of the Golf Clubhouse and related facilities. In the student activities area, the planned renovation of the Old Union, Clubhouse, and Nitery (90,486 gsf) will create additional student activity and support space.

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 $6 million, or 1% of the plan.

Projects in Design and Construction

There is one academic support project underway.

The Bakewell building (17,000 gsf), built in 1928, will be seismically renovated to house the Admission, Financial Aid, and Visitor Information Services areas.

Forecasted Construction Projects:

There are no forecasted projects in this category.

Infrastructure

Stanford's ongoing efforts to renew its infrastructure are reflected in a $125.5 million budget (13%) in the Capital Plan. The majority of the infrastructure programs are for Parking Structures and Road Systems, Information Technology and Communication Systems, and the Capital Utility Programs (CUP). The remaining programs include GUP Mitigation and other infrastructure projects and programs, as described below. Note that the GUP mitigation and the Stanford Infrastructure Program are funded through construction project surcharges.

Sand Hill Road Widening and Related Improvements

This infrastructure project is the last component of a series of projects required to accommodate the development of the western part of the campus.

The completion of the project will provide improved safety and circulation while relieving traffic congestion along the Sand Hill Road corridor and the approaches to the western campus.

Parking

Approximately $15 million will be spent on the new East Campus Parking Structure, which will provide approximately 1,000 parking spaces both to provide a net increase in parking for the Law School Housing project and to replace those spaces displaced by the new housing facility.

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 Fees fund increases in the net number of parking spaces on campus. The maximum net increase in parking allowed under the 2000 GUP is 2,300 spaces, most of which are attributable to planned increases in on-campus student housing.

Information Technology & Communication Systems

A total of $30.2 million has been allocated for information systems applications, infrastructure development, and upgrades to networks and communication systems.

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 four conditions: system expansion, system replacement, system controls and regulatory requirements.

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 planned to meet these conditions total $16.3 million and relate to Campus Drive Widenings, trail easements, childcare and water conservation. Funding for these expenditures will be generated by an internal 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)

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 $7.5 million over the next three years. SIP projects include the construction of small increments of additional parking, campus transit improvements, parking lot infrastructure improvements, site improvements, bicycle and pedestrian paths, lighting, and outdoor art.

Compliance and Other

A total of $4.3 million has been allocated toward the ongoing implementation of the East and West Campus Storm Drain Improvements program and ADA barrier removal.

Uses of Funds by Project Type

New Construction

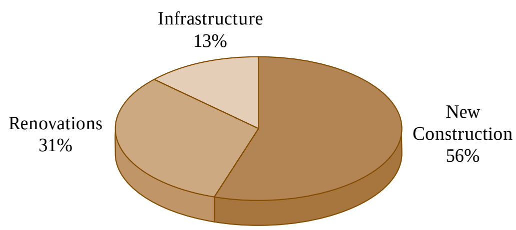
Of the 29 major construction projects, the three-year forecasted plan anticipates 15 new buildings. These projects account for $544.3 million or 56% of the three-year plan, ranging in size from $3.8 million to $99.8 million. These buildings will support academic and research programs, as well as increasing student housing and athletics/student activities facilities.

Renovations

As is illustrated in the chart on the next page, renovation projects in the Capital Plan represent $307.1 million, or 31% of the total project costs over the three-year period. Three of the renovation projects (Building 500/510, Bakewell, and CPPC) represent

2004/05 – 2006/07

Uses of Funds by Project Type: $976.8 Million[1]



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

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. The remaining projects include major renovations of some of Stanford's older buildings, including the Old Union.

Infrastructure

Infrastructure projects and programs totaling $125.5 million comprise the remaining 13% of the Capital Plan.

Other Stanford Entities

In 2004/05, 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 the Stanford Management Company and Stanford Hospital and Clinics (SHC) 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 (SMC) continues to plan both rental and for-sale housing units for faculty and staff of the university over the next ten years.

Stanford Research Park – Although the local real estate market and economic environment have softened, the Research Park continues to be a desirable location for corporations. The Stanford Management Company recently completed an agreement with a major corporation to redevelop a 32 acre site. In addition, SMC is evaluating redeveloping sites on the edges of the Research Park for housing.

Stanford Hospital and Clinics (SHC)

SHC has completed the Center for Cancer Treatment and Prevention/Ambulatory Care Pavilion, a 218,000 gsf project. In addition, the Lucile Packard Children's Hospital (LPCH) has commenced a significant interior renovation project to support current program needs. The School of Medicine, SHC, and LPCH 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 2004/05 to 2009/10) total $15.1 million annually. Of this, $7.4 million will be paid by unrestricted funds, $6.1 million will be serviced by auxiliary or service center operations, and $1.6 million will be paid by formula schools (the Graduate School of Business and the School of Medicine).

The additional operations, maintenance, and utilities (O&M) costs expected at the completion of all projects commencing in the three-year plan total $12.9 million per year. Of this amount, $7.5 million per year will be paid by unrestricted funds, $1.8 million will be covered by auxiliary and service center operations, and the remaining $3.6 million will be paid by the formula schools.

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. The current forecast for the general funds portion of the Consolidated Budget for Operations includes these projected costs.

Debt Capacity

The university is currently in the process of raising $150 million of tax-exempt debt. The proceeds will refinance $93.6 million of long-term tax-exempt commercial paper outstanding and restore capacity to the $150 million tax-exempt commercial paper program. Total university debt outstanding is projected to be $1.35 billion at the end of 2003/04.

Once the $150 million financing is completed, the university will have approximately $343.4 million of capacity to finance capital projects including $137 million of unused taxable commercial paper capacity, $150 million of unused tax-exempt commercial paper capacity and $56.4 million of unexpended bond proceeds. An additional $42 million is expected to become available through fiscal year-end 2004/05 from internal amortization on previous debt-funded projects.

We will require a total of $233.7 million to finance:

- $131.8 million to complete projects currently committed or under construction,
- $63.3 million for forecasted projects commencing in 2004/05, and
- $38.6 million for projects under $3 million and financed equipment.

Additional funding is likely to be needed in 2004/05 to finance the Faculty Staff housing mortgage portfolio following a surge of mortgage refinancings that resulted in an $11 million decline in the mortgage portfolio in 2002/03. In each of the four years prior to 2003, the mortgage portfolio grew by an average of $35 million. Future growth in the portfolio is difficult to predict due to the uncertainty in local real estate prices and mortgage interest rates, both of which appear to be increasing.

Projects identified in the three-year Capital Plan commencing after 2004/05 will require an additional $112 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 2004/05.

Entitlements

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

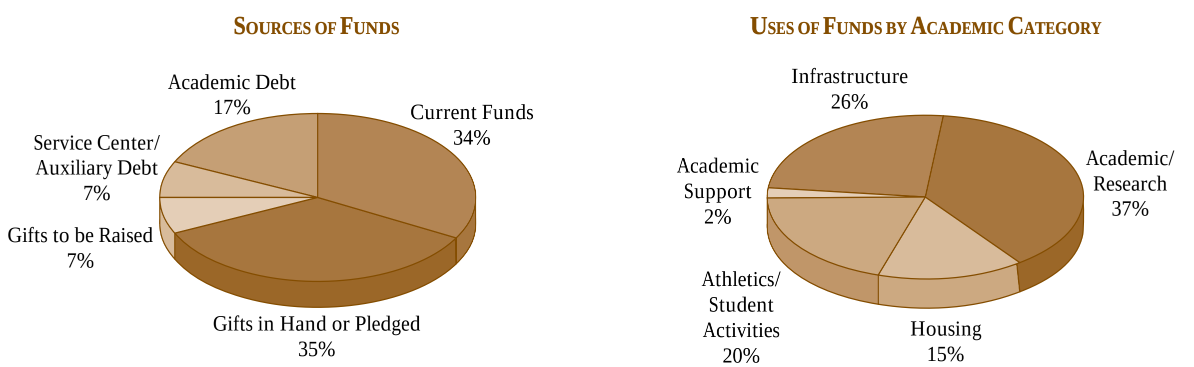
In December 2000, Santa Clara County approved a General Use Permit that allows Stanford to construct up to 2,035,000 additional gsf of academic-related buildings on the core campus. The GUP also allows for the construction of up to 2,000 new student-housing units and over 1,000 units of housing for postdoctoral 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 approval of a sustainable development study before new construction is developed beyond one million gsf.
- The construction of 605 units of housing for each 500,000 gsf of new academic building.

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 April 21, 2004, GUP square footage included in county building permits to date totaled approximately 73,000 gsf. Additional

The Capital Budget 2004/05: $168.9 Million[1]



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

projects approved by the Board of Trustees but not yet at the building permit stage amount to nearly 75,000 gsf. The three-year forecasted Capital Plan shows a projected usage of nearly 458,000 GUP square feet (which includes these already approved projects). This, of course, is a forecast that could change over time and that presumes funding sources will be available as forecasted.

THE CAPITAL BUDGET, 2004/05

The 2004/05 Capital Budget represents capital expenditures for the upcoming fiscal year in the amount of $168.9 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

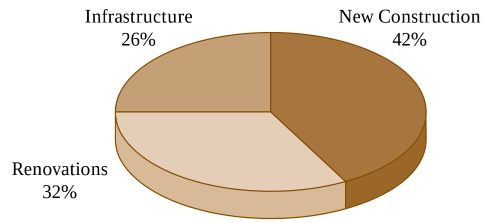
A breakdown of the Capital Budget's sources and uses of funds is presented in the charts on the previous page. Gifts and Debt represent 42% and 24% of the budget, respectively. Current funds (i.e., existing university reserves and fund balances) represent the remaining 34% of the funding.

Of the total $168.9 million Capital Budget, 37% will be spent on Academic/Research projects. Infrastructure, Athletics/Student Activities and Housing projects will represent 26%, 20%, and 15% of the total budget respectively. Academic Support projects represent the remaining 2%. An estimated 42% of the budget will be spent on new construction projects. The majority of these expenditures are to fund the Law Student Housing, Varian 2, and Arrillaga Family Recreation Center buildings. Another 32% will be spent on renovation projects such as the Maples Pavilion renovation. The remaining 26% will be spent on infrastructure projects and programs, including the Sand Hill Road Widening project. Other infrastructure initiatives in 2004/05 include Information Technology and CUP programs.

CAPITAL BUDGET IMPACT ON 2004/05 OPERATIONS

The 2004/05 Projected Consolidated Budget for Operations includes incremental debt service and O&M expenses for projects completing in 2004/05. Additionally, this budget includes an incremental increase in debt and O&M expenses for projects completing in 2003/04 that were operational for less than 12 months in 2003/04.

2004/05
USES OF FUNDS BY PROJECT TYPE: $168.9 MILLION[1]



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

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 projects. 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 2004/05 is 5.4%.

The projected incremental internal debt service funded by unrestricted funds in 2004/05 is $278,803. This amount represents the additional debt service on five capital projects and programs. This additional debt service brings the total annual internal debt service borne by the unrestricted university budget to $34.3 million, equal to approximately 4% of unrestricted revenues.

Total internal debt service, including auxiliaries and service centers, will increase from $110.1 million to $112.5 million, an increment of $2.4 million.

Additional O&M costs of approximately $192,000 will be funded by general funds. The Lucas Center, Maples Pavilion renovation and the Graduate Community Center will add approximately $600,000 and will be funded through auxiliary and Medical School 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.

2004/05-2006/07 Capital Plan
Projects in Design & Construction
[in millions of dollars]

					Project Funding Source						Annual Continuing Costs	
						Gifts		University Debt				
	School/ Department	Fiscal Year Project Schedule	Estimated Project Cost[1]	Capital Budget 2004/05	Current Funds[2]	Gifts in Hand or Pledged	To Be Raised	Service Center/ Auxiliary Debt	Academic Debt	Resources To Be Identified[3]	Debt Service	Operations Maintenance & Utilities
Law Student Housing (600 units) and common space	SLS	2003-06	99.8	24.0	18.4	40.0	19.8	21.6			1.5	1.0
New Building ($90.0)												
Historic Building Relocations ($4.1)												
Utilities ($3.9)												
Law School/Campus-Parking & Service Access ($1.8)												
Varian 2 (formerly Endstation Buildout)	SEMC [4]	2004-07	34.2	6.8					24.0	10.2	1.7	0.8
New Building ($32.0)												
Endstation III Buildout ($1.5)												
HEPL Demolition ($0.7)												
Maples Pavilion Renovation	DAPER	2003-05	29.0	17.4		29.0						0.3
Arrillaga Family Recreation Center	DAPER	2003-05	23.0	13.8		18.0	5.0					0.4
Lucas Center Expansion	SOM	2003-05	22.8	5.7	22.8							0.2
Kavli Institute for Particle Astrophysics & Cosmology	SLAC	2003-05	10.0	5.5		8.5	1.5					0.1
Knoll Seismic Renovation	H&S	2003-05	9.8	5.9	7.5	1.0			1.3		0.1	
Stanford-in-Washington	H&S	2004-07	7.6	1.5		7.6						0.1
Bakewell Seismic Renovation	PRES/PROV	2004-05	6.0	4.2					6.0		0.5	0.1
Building 500/510 Archaeology	H&S	2003-05	5.8	2.9					5.8		0.5	0.1
CSLI-Media X/EPGY Annex Building	DOR	2003-05	5.0	1.2		3.8	1.2					0.1
Graduate Student Community Center	VPSA	2003-05	3.8	0.9		2.8			1.0		0.1	0.1
Subtotal - Projects in Design & Construction			256.7	89.8	48.7	110.6	27.5	21.6	38.1	10.2	4.4	3.2

[1] Costs reflect Board of Trustees approvals.

[2] Includes funds from university and school reserves, and current GUP and SIP funds.

[3] Anticipated funding for this category is through a combination of gift raising and school, department and university reserves, and GUP and SIP funds yet to be identified.

[4] SEMC connotes Science Engineering Medical Center projects, a series of buildings being planned over the next several years.
Funding for these projects is being planned as a combination of debt, reserves, and fundraising; detailed breakdowns are not yet listed.

2004/05-2006/07 Capital Plan
Forecasted Construction Projects
[in millions of dollars]

					Project Funding Source						Annual Continuing Costs	
						Gifts		University Debt				
	School/ Department	Fiscal Year Project Schedule	Estimated Project Cost[1]	Capital Budget 2004/05	Current Funds[2]	Gifts in Hand or Pledged	To Be Raised	Service Center/ Auxiliary Debt	Academic Debt	Resources To Be Identified[3]	Debt Service	Operations Maintenance & Utilities
Stone Buildings Renovation	SOM	2005-09	117.3	1.2			67.0		19.3	31.0	1.6	
SMILE Backfill ($67.0)												
Infrastructure ($31.0)												
Structural/Seismic Upgrades ($19.3)												
Environment and Energy Building	SEMC [4]	2005-08	72.2	3.6			72.2					2.3
School of Medicine Information and Learning Environment (SMILE)	SEMC [4]	2005-08	63.5	2.2			63.5					2.6
Art to the Old Anatomy Building	H&S	2005-07	51.5	12.6		20.0	31.5					1.0
Old Union/Clubhouse/Building 590	VPSA	2005-07	37.6	1.9					20.0	17.6	1.7	
GSB Classroom Building	GSB	2005-07	36.8	1.8			36.8					0.8
Manzanita III Hall & Dining (125 units)	R&DE	2005-07	20.0	0.9			20.0					0.3
Blood Center (Hillview Avenue)	SOM	2005	12.0	8.7	12.0							
SEMC Regional Utilities	SEMC [4]	2005-06	10.0	2.5			10.0					
Maloney Field Bleachers	DAPER	2005-06	4.0	0.2			4.0					
Old Bookstore Renovation (formerly CPPC Renovation)	SUSE	2005-07	4.0	0.2	1.6	2.0	0.4					
2004/05 Subtotal			428.8	35.7	13.6	22.0	305.3		39.3	48.6	3.3	7.0
School of Engineering Center (SOE Center)	SEMC [4]	2006-10	70.3				70.3					1.7
Biology Building	SEMC [4]	2006-10	61.4				61.4					0.7
Golf Club House, Pro Shop, Cart Barn Renovation	DAPER	2006-07	8.0			1.0	7.0					0.1
Roble Hall Renovation (2005/06)	R&DE	2006	5.3					5.3			0.5	
2005/06 Subtotal			145.0			1.0	138.7	5.3			0.5	2.5
Crothers and Crothers Memorial	R&DE	2007	15.2							15.2		
Roble Hall Renovation (2006/07)	R&DE	2007	5.7					5.7			0.5	
2006/07 Subtotal			20.9					5.7		15.2	0.5	
Subtotal - Forecasted Projects			594.6	35.7	13.6	23.0	443.9	11.0	39.3	63.8	4.2	9.5
SUBTOTAL – CONSTRUCTION PLAN			851.3	125.6	62.3	133.6	471.4	32.6	77.4	74.0	8.6	12.7

1 Estimated project costs are based on 2003 cost benchmarks, with some exceptions: SOM has provided Stone infrastructure and seismic estimates, housing estimates are from R&DE, and athletics estimates are from DAPER.

2 Includes funds from university and school reserves, and current GUP and SIP funds.

3 Anticipated funding for this category is through a combination of gift raising and school, department and university reserves, and GUP and SIP funds yet to be identified.

4 SEMC connotes Science Engineering Medical Center projects, a series of buildings being planned over the next several years.
Funding for these projects is being planned as a combination of debt, reserves, and fundraising; detailed breakdowns are not yet listed.

2004/05-2006/07 Capital Plan
Infrastructure Projects & Programs
[in millions of dollars]

	School/ Department	Project Schedule	Estimated Project Cost	Capital Budget 2004/05	Project Funding Source: Current Funds[1]	Gifts: Gifts in Hand or Pledged	Gifts: To Be Raised	University Debt: Service Center/ Auxiliary Debt	University Debt: Academic Debt	Resources To Be Identified[2]	Annual Continuing Costs: Debt Service	Annual Continuing Costs: Operations Maintenance & Utilities
Parking Structures and Road Systems												
Sand Hill Road Widening & Related Improvements	SMC-FSH	2004-06	22.2	11.1					22.2		2.2	
East Campus Parking Structure	FAC OPS	2005-06	15.0	3.0	3.0					12.0		0.2
Subtotal-Parking Structures and Road Systems			37.2	14.1	3.0				22.2	12.0	2.2	0.2
Information Technology & Communications Systems												
Administrative Systems	ITSS	2005-07	20.0	6.8	20.0							
Communications and Networking Systems	ITSS	2005-07	10.3	2.1				5.3	4.9		1.0	
Subtotal-Systems			30.2	8.9	20.0			5.3	4.9		1.0	
Capital Utilities Program (CUP)												
System Expansion	FAC OPS	2005-07	15.3	5.5				15.3			1.5	
System Replacement	FAC OPS	2005-07	11.9	3.6				11.9			1.2	
Controls	FAC OPS	2005-07	1.9	0.7				1.9			0.2	
Regulatory	FAC OPS	2005-07	0.9	0.2				0.9			0.1	
Subtotal-CUP			30.0	10.0				30.0			3.0	
GUP Mitigation Costs												
Campus Drive Widenings	FAC OPS	2005-07	6.6	2.2	6.6							
Trail Easements	FAC OPS	2005-06	6.0	3.0	6.0							
Childcare	FAC OPS	2005-07	2.8	0.9	2.8							
Water Conservation System	FAC OPS	2005-07	1.0	0.3	1.0							
Subtotal-GUP Mitigation			16.3	6.4	16.3							
Stanford Infrastructure Program (SIP)[3]	FAC OPS-UA/PO	2005-07	7.5	2.5	7.5							
Compliance and Other												
East & West Campus Storm Drains	FAC OPS	2005-07	3.0	1.2					3.0		0.3	
ADA Barrier Removal	FAC OPS	2005-07	1.3	0.3	1.3							
Subtotal-Compliance and Other			4.3	1.5	1.3				3.0		0.3	
Subtotal - Infrastructure Projects & Programs			125.5	43.4	48.0			35.3	30.1	12.0	6.5	0.2

[1] Includes funds from university and school reserves, and current GUP and SIP funds.

[2] Anticipated funding for this category is through a combination of gift raising and school, department and university reserves, and GUP and SIP funds yet to be identified.

[3] Parking Structures are listed separately.

Appendix A

Consolidated Budgets for Academic Units and Selected 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 and 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

Graduate School of Business (includes Schwab)
2004/05 Consolidated Forecast

[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Auxiliary Activities	Total
Revenues							
General Funds Allocation	32,513						32,513
Restricted Revenues		21,568	17,540	26,366	280	6,893	72,647
Internal Operating Budget Support	41,120	(6,469)	(17,030)	(17,622)			
From (to) Other Unit Support		720	1,000			(720)	1,000
Total Revenues	73,633	15,819	1,510	8,745	280	6,173	106,160
Expenses							
Academic Salaries	22,946	877	65		105		23,993
Staff Salaries	17,071	1,634	128		8	382	19,223
Benefits and Other Compensation	13,811	2,382	79		36	124	16,432
Non-Salary Expenses	19,806	10,122	839	7,388	132	5,667	43,953
Total Expenses	73,634	15,016	1,110	7,388	280	6,173	103,601
Revenues less Expenses		803	400	1,356			2,559
Transfers From (to) Endowment Principal, Plant & Student Loan				(1,300)			(1,300)
Surplus / (Deficit)		803	400	56			1,259
Beginning Operating Equity		23,176	22,490	2,113			47,779
Ending Operating Equity		23,979	22,890	2,170			49,038

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 2004/05 CONSOLIDATED FORECAST

[IN THOUSANDS OF DOLLARS]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Total
Revenues						
General Funds Allocation	4,025					4,025
Restricted Revenues		4,044	1,800	13,275	9,525	28,644
Internal Operating Budget Support	7,499			(7,499)		
From (to) Other Unit Support	1,050	(125)	100		878	1,903
Total Revenues	12,574	3,919	1,900	5,776	10,403	34,572
Expenses						
Academic Salaries	5,446	1,831	449	151	3,024	10,901
Staff Salaries	2,059	301		40	353	2,754
Benefits and Other Compensation	2,810	650	137	58	1,030	4,685
Non-Salary Expenses	2,259	1,596	608	4,052	5,995	14,510
Total Expenses	12,574	4,378	1,195	4,302	10,402	32,851
Revenues less Expenses		(458)	705	1,474		1,721
Transfers From (to) Endowment Principal, Plant & Student Loan				(590)		(590)
Surplus / (Deficit)		(458)	705	884		1,131
Beginning Operating Equity		7,152	5,274	12,235	4,674	29,335
Ending Operating Equity		6,694	5,980	13,119	4,674	30,466

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
2004/05 Consolidated Forecast

[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Total
Revenues						
General Funds Allocation	10,111					10,111
Restricted Revenues		201	2,840	3,470	11,000	17,511
Internal Operating Budget Support	3,270	53	(347)	(2,976)		
From (to) Other Unit Support	507					507
Total Revenues	13,888	254	2,493	494	11,000	28,129
Expenses						
Academic Salaries	5,970	53	522		3,241	9,786
Staff Salaries	2,256	64	322	5	2,586	5,233
Benefits and Other Compensation	2,937	40	345		2,360	5,683
Non-Salary Expenses	2,816	66	528	223	4,820	8,453
Total Expenses	13,978	223	1,717	228	13,007	29,155
Revenues less Expenses	(91)	31	776	266	(2,007)	(1,025)
Transfers From (to) Endowment Principal, Plant & Student Loan						
Surplus / (Deficit)	(91)	31	776	266	(2,007)	(1,025)
Beginning Operating Equity	3,157	4,662	6,269	1,451	7,670	23,210
Ending Operating Equity	3,066	4,693	7,046	1,717	5,662	22,185

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
2004/05 Consolidated Forecast
[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Total
Revenues						
General Funds Allocation	47,374					47,374
Restricted Revenues		25,909	18,000	22,500	89,593	156,002
Internal Operating Budget Support	13,243	(5,597)	(600)	(7,046)		
From (to) Other Unit Support	2,978			(150)	4,700	7,528
Total Revenues	63,595	20,312	17,400	15,304	94,293	210,903
Expenses						
Academic Salaries	26,507	4,090	4,637	529	30,656	66,419
Staff Salaries	9,674	5,200	1,400	150	3,105	19,529
Benefits and Other Compensation	18,101	3,802	2,742	623	15,836	41,104
Non-Salary Expenses	9,313	8,252	8,840	6,672	44,695	77,773
Total Expenses	63,595	21,344	17,619	7,975	94,293	204,825
Revenues less Expenses		(1,033)	(219)	7,329		6,078
Transfers From (to) Endowment Principal, Plant & Student Loan		(1,000)	(350)			(1,350)
Surplus / (Deficit)		(2,033)	(569)	7,329		4,728
Beginning Operating Equity		48,571	46,258	32,927		127,756
Ending Operating Equity		46,538	45,689	40,256		132,484

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
2004/05 Consolidated Forecast
[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Total
Revenues						
General Funds Allocation	1,031					1,031
Restricted Revenues		500	18,968	13,022	150	32,640
Internal Operating Budget Support	32,640	(500)	(18,968)	(13,022)	(150)	
From (to) Other Unit Support						
Total Revenues	33,671					33,671
Expenses						
Academic Salaries	8,376					8,376
Staff Salaries	5,957					5,957
Benefits and Other Compensation	5,850					5,850
Non-Salary Expenses	13,488					13,488
Total Expenses	33,671					33,671
Revenues less Expenses						
Transfers From (to) Endowment Principal, Plant & Student Loan						
Surplus / (Deficit)						
Beginning Operating Equity		676	17,765	12,256		30,697
Ending Operating Equity		676	17,765	12,256		30,697

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 and Sciences (includes Overseas Studies Program)
2004/05 Consolidated Forecast

[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Auxiliary Activities	Total
Revenues							
General Funds Allocation	107,368						107,368
Restricted Revenues		5,426	9,446	59,737	71,676	4,619	150,903
Internal Operating Budget Support	44,718	13,547	(5,592)	(52,672)			
From (to) Other Unit Support	14,204	1,465	3,766	(1,326)	(1)		18,108
Total Revenues	166,290	20,437	7,620	5,739	71,674	4,619	276,379
Expenses							
Academic Salaries	72,115	6,678	1,601	2,146	18,831		101,370
Staff Salaries	20,326	2,739	470	671	3,141	1,913	29,260
Benefits and Other Compensation	33,618	3,245	677	1,670	6,685	586	46,480
Non-Salary Expenses	40,049	10,409	6,377	5,959	43,018	2,120	107,931
Total Expenses	166,108	23,071	9,125	10,445	71,674	4,619	285,042
Revenues less Expenses	182	(2,634)	(1,505)	(4,707)			(8,664)
Transfers From (to) Endowment Principal, Plant & Student Loan		(2,000)					(2,000)
Surplus / (Deficit)	182	(4,634)	(1,505)	(4,707)			(10,664)
Beginning Operating Equity	2,047	49,594	34,015	40,454			126,110
Ending Operating Equity	2,228	44,961	32,510	35,747			115,446

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School of Law
2004/05 Consolidated Forecast
[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Total
Revenues						
General Funds Allocation	14,131					14,131
Restricted Revenues		2,610	3,750	16,000	250	22,610
Internal Operating Budget Support	17,222	(222)	(2,000)	(15,000)		
From (to) Other Unit Support				(1,000)		(1,000)
Total Revenues	31,353	2,388	1,750		250	35,741
Expenses						
Academic Salaries	10,900	120	180		60	11,260
Staff Salaries	5,500	160	550		60	6,270
Benefits and Other Compensation	5,528	102	258		38	5,926
Non-Salary Expenses	9,425	986	474	56	92	11,032
Total Expenses	31,353	1,367	1,462	56	250	34,488
Revenues less Expenses		1,020	288	(56)		1,253
Transfers From (to) Endowment Principal, Plant & Student Loan			(1,000)			(1,000)
Surplus / (Deficit)		1,020	(712)	(56)		253
Beginning Operating Equity	706	1,058	10,307	4,412		16,484
Ending Operating Equity	706	2,079	9,595	4,357		16,737

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School of Medicine
2004/05 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	83,480							83,480
Restricted Revenues		59,121	203,761	38,824	58,307	364,564	23,316	747,893
Internal Operating Budget Support	47,011	(21,274)		(3,276)	(22,461)			
From (to) Other Unit Support		8,414		(4,885)	(6,594)		696	(2,369)
Total Revenues	130,491	46,261	203,761	30,663	29,252	364,564	24,012	829,004
Expenses								
Academic Salaries	11,712	15,241	98,764	10,044	9,247	94,602	854	240,464
Staff Salaries	34,313	9,353	14,602	3,513	3,030	27,917	9,073	101,801
Benefits and Other Compensation	18,692	13,856	59,233	4,699	4,227	39,409	2,768	142,884
Non-Salary Expenses	65,774	26,612	17,576	14,414	12,365	202,635	11,317	350,693
Total Expenses	130,491	65,062	190,175	32,670	28,869	364,563	24,012	835,842
Revenues less Expenses		(18,801)	13,586	(2,007)	383			(6,839)
Transfers From (to) Endowment Principal, Plant & Student Loan		(17,567)						(17,567)
Surplus / (Deficit)		(36,369)	13,586	(2,007)	383			(24,406)
Beginning Operating Equity		117,892		125,131	106,428			349,451
Ending Operating Equity		81,523	13,586	123,124	106,811			325,045

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Vice Provost and Dean of Research and Graduate Policy
2004/05 Consolidated Forecast

[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Total
Revenues						
General Funds Allocation	25,104					25,104
Restricted Revenues		6,847	9,856	22,984	120,424	160,111
Internal Operating Budget Support	5,234	(533)	(3,182)	(1,519)		
From (to) Other Unit Support	9,808	2,654	(1,150)	(14,429)	(5,599)	(8,717)
Total Revenues	40,146	8,967	5,524	7,036	114,825	176,498
Expenses						
Academic Salaries	3,875	1,505	1,659	1,100	14,431	22,569
Staff Salaries	15,379	1,683	1,410	288	6,214	24,973
Benefits and Other Compensation	6,327	1,319	1,020	465	7,503	16,633
Non-Salary Expenses	16,654	3,654	2,746	2,370	86,677	112,101
Total Expenses	42,234	8,162	6,834	4,223	114,825	176,277
Revenues less Expenses	(2,088)	806	(1,310)	2,814		221
Transfers From (to) Endowment Principal,						
Plant & Student Loan	525	(20)	475	50		1,030
Surplus / (Deficit)	(1,563)	786	(835)	2,864		1,251
Beginning Operating Equity	2,868	24,726	14,709	26,103		68,406
Ending Operating Equity	1,305	25,511	13,874	28,967		69,657

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Vice Provost for Undergraduate Education
2004/05 Consolidated Forecast
[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Total
Revenues						
General Funds Allocation	12,485					12,485
Restricted Revenues		760	1,185	8,339		10,284
Internal Operating Budget Support	11,169	(1,451)	(2,070)	(7,648)		
From (to) Other Unit Support	(657)					(657)
Total Revenues	22,997	(691)	(885)	691		22,112
Expenses						
Academic Salaries	5,757		498	127		6,382
Staff Salaries	5,946		1	10		5,957
Benefits and Other Compensation	4,308		144	41		4,493
Non-Salary Expenses	6,986	81	76	20		7,163
Total Expenses	22,997	81	719	198		23,995
Revenues less Expenses		(772)	(1,604)	493		(1,883)
Transfers From (to) Endowment Principal, Plant & Student Loan						
Surplus / (Deficit)		(772)	(1,604)	493		(1,883)
Beginning Operating Equity		2,565	2,655	6,161		11,381
Ending Operating Equity		1,793	1,052	6,654		9,498

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Admissions and Financial Aid
2004/05 Consolidated Forecast

[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Total
Revenues						
General Funds Allocation	27,462					27,462
Restricted Revenues			9,760	31,304	11,000	52,064
Internal Operating Budget Support						
From (to) Other Unit Support						
Total Revenues	27,462		9,760	31,304	11,000	79,526
Expenses						
Academic Salaries						
Staff Salaries	4,016					4,016
Benefits and Other Compensation	1,210					1,210
Undergraduate Financial Aid	20,781		9,760	31,304	11,000	72,845
Other Non-Salary Expenses	1,455					1,455
Total Expenses	27,462		9,760	31,304	11,000	79,526
Revenues less Expenses						
Transfers From (to) Endowment Principal, Plant & Student Loan						
Surplus / (Deficit)						
Beginning Operating Equity		717	308	3,112		4,137
Ending Operating Equity		717	308	3,112		4,137

Notes:

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Stanford University Libraries and Academic Information Resources (including HighWire Press, SU Press, and Media Solutions) 2004/05 Consolidated Forecast

[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Auxiliary Activities	Total
Revenues							
General Funds Allocation	36,673						36,673
Restricted Revenues		3,272	1,041	7,568		23,802	35,683
Internal Operating Budget Support	7,124	(2,033)	(114)	(4,977)			
From (to) Other Unit Support	3,822	(1,239)		(98)		1,565	4,051
Total Revenues	47,619		927	2,493		25,367	76,407
Expenses							
Academic Salaries	5,313					4	5,317
Staff Salaries	16,273		104		936	13,170	30,483
Benefits and Other Compensation	7,406		33		285	4,415	12,139
Library Acquisitions	13,285		278	2,166	100	10	15,840
Other Non-Salary Expenses	5,342		600	655	795	8,713	16,104
Total Expenses	47,619		1,015	2,821	2,116	26,312	79,883
Revenues less Expenses			(88)	(328)	(2,116)	(945)	(3,476)
Transfers From (to) Endowment Principal, Plant & Student Loan							
Surplus / (Deficit)			(88)	(328)	(2,116)	(945)	(3,476)
Beginning Operating Equity		78	1,473	2,803	3,569	2,891	10,814
Ending Operating Equity		78	1,385	2,475	1,453	1,946	7,337

Notes:

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Vice Provost for Student Affairs
2004/05 Consolidated Forecast

[in thousands of dollars]

	Operating Budget	Designated Funds	Restricted Expendable	Restricted Endowment	Grants & Contracts	Total
Revenues						
General Funds Allocation	17,810					17,810
Restricted Revenues		3,131	425	1,529	511	5,596
Internal Operating Budget Support	1,843	(1,153)	(5)	(685)		
From (to) Other Unit Support	1,862	(20)		(40)		1,802
Total Revenues	21,515	1,958	420	804	511	25,208
Expenses						
Academic Salaries	109			177	25	311
Staff Salaries	12,550	526	268	88	230	13,662
Benefits and Other Compensation	3,679	175	89	88	65	4,096
Non-Salary Expenses	5,177	1,479	225	148	191	7,220
Total Expenses	21,515	2,180	582	501	511	25,289
Revenues less Expenses		(222)	(162)	303		(81)
Transfers From (to) Endowment Principal, Plant & Student Loan						
Surplus / (Deficit)		(222)	(162)	303		(81)
Beginning Operating Equity	1,067	5,423	2,382	2,068		10,940
Ending Operating Equity	1,067	5,201	2,220	2,371		10,859

Notes:

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SELECTED 2004/05 AUXILIARY ACTIVITIES

[IN THOUSANDS OF DOLLARS]

ATHLETICS — AUXILIARY

Operating	
Revenues	
Intercollegiate	15,139.0
Unrestricted Funds	4,816.0
Golf Course	5,473.0
General Funds	4,592.0
Restricted Funds	8,664.0
Faculty-Staff Recreation	1,585.0
Total Revenues	40,269.0
Expenses	
Compensation	18,580.0
Sport Programs	8,373.0
Facilities & Events	5,428.0
Student Services	1,317.0
Administration	5,207.0
University Overhead	1,364.0
Total Expenses	40,269.0
Operating Gain/(Loss)	0.0

ATHLETICS — NON-AUXILIARY

Financial Aid	
Revenues	14,063.0
Expenses	14,063.0
Financial Aid Gain/(Loss)	0.0
Camps	
Revenues	4,900.0
Expenses	4,600.0
Camps Gain/(Loss)	300.0

RESIDENTIAL AND DINING ENTERPRISES

Revenues	
Student Payments	84,030.8
Student Payments: Off Campus	5,393.7
SLAC Guest House	1,850.0
Concessions/ Catering	5,083.6
Conferences Housing & Dining	9,688.2
Other Operating Income	12,171.3
Interest Income	263.6
Total Revenue	118,481.2
Transfers	
Grad Housing Subsidy: Off Campus	3,581.7
Rent Loss Reimbursement	
Debt Service Subsidy: Grad Housing	3,000.0
Transfer to Residential Education	(5,534.6)
Total Transfers	1,047.0
Total Revenue and Transfers	119,528.2
Expenses	
Salaries and Benefits	25,302.1
Food Costs	8,114.7
EM & S	8,318.7
Rentals & Leases: Off Campus	8,975.4
Utilities & Telephone	7,776.3
Repair & Maintenance	10,565.9
Administrative Expenses	10,895.9
Debt Service	31,838.0
Distribution of G&A Expenses	6,518.5
Other Non-Salary Expenses	1,660.0
Total Expenses	119,965.5
Operating Gain/(Loss)	(437.3)

Appendix B
Supplementary Information

The tables and graphs in this Appendix provide historical and statistical data on enrollment, tuition and room and board rates, financial aid, faculty, staff, selected expenditures, and the endowment. 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 2003/04, as they have since 1998/99. The number of graduate students increased in 2003/04 after two years of declining graduate enrollment. The number of TGRs (Terminal Graduate Registration) increased markedly in 1997/98 due to the change that moved the costs of tuition benefits for research assistants from the fringe benefits pool to research grants and contracts. The effect of this change was that students who were eligible to register as TGR were encouraged to do so. The number of TGRs continues to increase rapidly, setting a new record high in 2003/04.

Schedule 2 – Freshman Student Apply/Admit/Matriculate Statistics

The number of freshman class applicants increased to 18,628 in 2003/04. This is the third-largest pool in Stanford's history. Only 12.6% of applicants were accepted; the lowest admit rate in the past ten years. 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 Stanford's graduate and professional programs averaged about 28,000 from 1994/05 to 2001/02, but has risen to over 32,000 in 2003/04. This especially large applicant pool enabled Stanford to be very selective with an admit rate of only 13.7%. The yield for graduate admits has been fairly constant, hovering just under 52% since 1997/98.

Schedule 4 – Tuition and Room & Board Rates

Throughout the 1980s tuition grew at an average annual rate of 8.9%, and the total student budget, including room and board, grew even faster. The university made a commitment to restrain the growth in tuition in the early 1990s and was able to hold the annual growth to an average of 5.5%. Tuition growth has been more moderate in the new decade.

Schedule 5 – Tuition and Fee Income

Total tuition income is expected to increase at a higher (5.7%) rate than the increase in the most common tuition rate (4.5%). The higher growth rate is due to a 50% increase in TGR tuition, some increases in graduate enrollment, and larger increases in tuition in the Graduate School of Business.

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 11.8% in 2002/03, as a result of a higher level of need for the freshman class and a continuing sluggish economy.

The Stanford unrestricted funds portion of scholarships and grants, which had been rapidly declining the past 3 years, more than doubled in 2001/02 and increased 31% in 2002/03, as other sources, particularly gifts and endowment income, have been increasing more slowly due to economic conditions. Total loans rose 5%, but stayed near the average amount for the past ten years. The work component of financial aid had been declining since 1994/95, but rose slightly the past two years.

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. Total need will increase faster than the combined growth in the tuition, room, and board rate for next year (4.5%), because we expect more students to be aided, and because those who are aided have demonstrated greater need. Unrestricted funds required in 2004/05 are expected to increase by $5.4 million, or 36.8%. The need for unrestricted funds had been declining substantially due to strong fundraising and less needy students, but has risen in the past three years to a level similar to that of the late 1990s. Unrestricted funds fill the gap between need and all other sources, so the amount of unrestricted funds may increase disproportionately in years when 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 about 91% for the past several years, several percentage points higher than the level during the mid-1990s due to a tighter and more expensive local rental market. Recently, the local housing market has eased somewhat, so that percentage may start to decrease. The percent of graduate students housed by Stanford grew rapidly from 1997/98 through 2003/04, coincident with the availability of subsidized off-campus housing. Stanford has begun to phase out the off-campus subsidized housing program, since local rents have eased and more graduate housing has been built on-campus.

Schedule 9 – Total Professorial Faculty

The total professoriate has increased by 33 (less than 2%) since last year. The number of tenure-line faculty has increased only 3.3% from the level five years ago, while the non-tenure line faculty (mostly the Medical Center Line) continues to increase much more rapidly.

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 three years. Schedule 10 shows that the total number of tenured faculty has increased by only seven in the past three years, and the number of tenure line faculty who have not obtained tenure has decreased by five. The number of non-tenure line faculty has increased by 43 as more faculty are hired into 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 as units are reorganized, 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 5% in 2003. The new employees are predominantly in the School of Medicine, whose staff increased by 14%. ITSS had a decrease in staff, as did some other administrative departments. The increase of staff in the Libraries is due to a reorganization that placed the University Press and Media Solutions in the Libraries organization.

Schedule 12 – Staff Employees Outside Medicine and SLAC

This graph shows the relative numbers and growth of staff employees who work in primarily academic verses administrative areas. Over the period shown, the number of academic and administrative staff grew an average of 3.5% and 2.7% per year, respectively. Moreover, the graph reveals that the number of employees in the administrative areas has remained constant the past three years, while the academic areas continue to experience growth, consistent with the growth in research.

Schedule 13 – Staff Benefits Detail

The fringe benefits rates provide a mechanism to support the various components of non-salary compensation provided to employees. Stanford has four distinct fringe benefits rates for (1) regular benefits-eligible employees, which includes most faculty and staff, (2) postdoctoral research affiliates, (3) casual/temporary employees, and (4) graduate research and teaching assistants. Schedule 13 shows the programs and costs for the weighted average of the four individual benefits rates. Retirement programs and health insurance costs are the primary drivers of the benefits program. Health insurance costs have increased dramatically in the past few years and are expected to increase by about 15% in 2004/05.

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 2002/03 increased by 13%. Non-US government sponsored research reached 16.5% of total sponsored research expense in 1999/00, 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 2002/03. (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 increased 35% since 1996/97 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 have declined from a high of $307 million in 1999/00 due to the conclusion of large projects mentioned above.

Schedule 16 – Endowment Value and Rate of Return

The rate of return for the endowment in 2002/03 was back on the positive side (7.3%) after two years of declines. The nominal return on invested funds has been positive all years in the table except for 2001/02 and 2002/03. The target payout rate is 5.0%.

Schedule 17 – Expendable Fund Balances at Year End: 1992/93 through 2002/03

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

SCHEDULE 1

Student Enrollment for Autumn Quarter 1994/95 through 2003/04

	Undergraduate			Graduate				
Year	Women	Men	Total	Women	Men	Total	TGR	Total
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
2003/04	3,245	3,409	6,654	2,282	4,220	6,502	1,298	14,454

Source: Registrar's Office third week enrollment figures

SCHEDULE 2

Freshman Apply/Admit/Enroll Statistics
Fall 1993 through Fall 2003

	Total Applications		Admissions		Enrollment	
Year	Number	Percent Change from Previous Year	Number	Percent of Applicants Admitted	Number	Percent of Admitted Applicants Enrolling
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%
Fall 2003	18,628	0.2%	2,343	12.6%	1,640	70.0%

SCHEDULE 3

Graduate Student Apply/Admit/Enroll Statistics
Fall 1992 through Fall 2003

	Total Applications		Admissions		Enrollment	
Year	Number	Percent Change from Previous Year	Number	Percent of Applicants Admitted	Number	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%
Fall 2003	32,503	6.6%	4,443	13.7%	2,300	51.8%

SCHEDULE 4

Undergraduate Tuition and Room & Board Rates
1980/81 through 2004/05

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%	9,073	4.5%	37,636	4.9%
2004/05	29,847	4.5%	9,500	4.7%	39,347	4.5%

SCHEDULE 5

Breakdown of Tuition and Fee Income
Projected 2004/05 Budget
[in thousands of dollars]

	Budget 2003/04	Projected 2004/05	2003/04 to 2004/05 Change Amount	Percentage
Tuition:				
Undergraduate	185,516	193,552	8,036	4.3%
Graduate	153,734	162,854	9,121	5.9%
Other[1]	10,516	13,320	2,803	26.7%
Summer	21,765	23,027	1,262	5.8%
Total Tuition	371,532	392,754	21,222	5.7%
Miscellaneous Fees:				
Application Fees	4,093	4,256	163	4.0%
Other Fees	1,000	1,045	45	4.5%
Total Fees	5,093	5,301	208	4.1%
Total Tuition and Fee Income	376,624	398,055	21,430	5.7%

[1] "Other" includes TGR (Terminal Graduate Registration) students. TGR tuition was raised to $2,500 per quarter in 2004/05 from $1,650 per quarter in 2003/04, a 52% increase.

SCHEDULE 6

Undergraduate Financial Aid by Source of Funds and Type of Aid[1]
1993/94 through 2002/03
[in thousands of dollars]

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Scholarships and Grants										
Stanford Unrestricted Funds	17,736	16,593	17,513	13,611	12,201	13,420	8,954	4,568	10,349	13,561
Gifts and Endowment Income: Non-Athletic[2]	12,355	14,762	15,692	20,027	22,526	23,235	26,871	35,660	35,711	38,317
Athletic Awards	5,639	6,328	6,626	7,471	8,232	8,614	8,874	9,842	10,627	11,331
Departmental Awards	566	455	415	1,372	1,743	2,016	2,238	3,263	3,766	3,853
External Grants[3]	9,448	10,407	11,477	13,757	15,541	15,343	16,713	16,383	17,824	20,431
Subtotal for Scholarships and Grants	45,744	48,545	51,723	56,238	60,243	62,629	63,649	69,717	78,278	87,493
Loans										
University Funds	1,382	1,157	1,290	1,233	787	600	666	612	9	
External Funds	9,763	11,389	11,453	11,519	12,791	12,354	11,279	9,987	11,159	11,690
Subtotal for Loans	11,145	12,546	12,743	12,752	13,578	12,953	11,946	10,599	11,168	11,690
Jobs										
University Funds[4]	3,897	4,175	3,602	3,295	3,255	2,387	2,252	1,120	1,408	1,458
External Funds	396	367	438	457	691	859	476	736	686	871
Subtotal for Jobs	4,293	4,542	4,040	3,752	3,945	3,246	2,728	1,857	2,094	2,329
Grand Total	61,182	65,633	68,506	72,742	77,766	78,828	78,323	82,173	91,540	101,511
Stanford Tuition plus Room and Board	24,310	25,465	26,749	27,827	28,857	29,878	30,939	32,471	35,884	37,636

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 2004/05 Budget Needs and Sources, Including Parental and Student Contributions[1]

[in thousands of dollars]

	2002/03 Actual	2003/04 Year End Projection	2004/05 Proposed Budget	Change from 2003/04 to 2004/05	Percent Change from 2003/04 to 2004/05
Needs					
Tuition, Room & Board	97,742	106,986	113,621	6,635	6.2%
Books and Personal Expenses	8,727	9,344	9,723	379	4.1%
Travel	1,676	1,796	1,865	70	3.9%
Total Needs	108,146	118,125	125,209	7,084	6.0%
Sources					
Total Family Contribution (Includes parent contribution for aided students, self-help, summer savings, assets, etc.)	43,031	48,375	49,993	1,618	3.3%
Endowment Income[2]	28,154	29,822	31,690	1,868	4.7%
Expendable Gifts	548	308	308		
Stanford Fund	9,452	10,800	9,400	(1,400)	(13.0%)
Federal Grants	4,142	4,300	4,400	100	2.3%
California State Scholarships	4,817	5,000	4,700	(300)	(6.0%)
Outside Awards	3,992	4,500	4,300	(200)	(4.4%)
Department Sources	449	350	350		
Unrestricted Funds	13,560	14,670	20,068	5,398	36.8%
Total Sources	108,146	118,125	125,209	7,084	6.0%
Number of Students on Need-Based Aid	2,803	2,930	2,990	60	2.0%

[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 5.

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

SCHEDULE 8

Students Housed on Campus
1993/94 through 2003/04

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	88%	3,069		41.3%
1994/95	5,734	87%	3,132		41.9%
1995/96	5,819	88%	3,090		41.4%
1996/97	5,749	88%	2,980		41.0%
1997/98	5,864	88%	3,320		44.6%
1998/99	5,917	90%	3,717	250	52.5%
1999/00	5,955	90%	3,408	584	52.4%
2000/01	5,969	91%	3,887	687	59.4%
2001/02	6,199	93%	3,748	932	62.1%
2002/03	6,138	91%	3,828	932	62.6%
2003/04	6,067	91%	4,013	632	59.6%

SCHEDULE 9

Total Professorial Faculty[1]
1974/75 through 2003/04

	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
2003/04	783	196	269	1,248	498	1,746

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]
2001/02 THROUGH 2003/04

	2001/02				2002/03				2003/04			
School Unit or Program	Tenured	Non-Tenured	Non-Tenure Line	Total	Tenured	Non-Tenured	Non-Tenure Line	Total	Tenured	Non-Tenured	Non-Tenure Line	Total
Earth Sciences	33	7	5	45	33	7	5	45	35	7	5	47
Education	32	11	2	45	33	9	3	45	35	10	3	48
Engineering	146	45	24	215	148	41	24	213	150	47	23	220
Humanities and Sciences	359	137	18	514	359	133	19	511	361	134	17	512
(Humanities)	(146)	(59)	(9)	(214)	(146)	(52)	(9)	(207)	(149)	(49)	(8)	(206)
(Natural Sciences & Math)	(112)	(34)	(5)	(151)	(114)	(34)	(6)	(154)	(114)	(33)	(5)	(152)
(Social Sciences)	(101)	(44)	(4)	(149)	(99)	(47)	(4)	(150)	(98)	(52)	(4)	(154)
Law	36	5	2	43	35	4	2	41	34	5	3	42
Other	3	1	12	16	3	1	13	17	3		15	18
Subtotal	609	206	63	878	611	195	66	872	618	203	66	887
Business	57	38	1	96	60	34	1	95	61	35	2	98
Medicine	251	60	387	698	246	59	411	716	241	62	427	730
SLAC	21	4	4	29	24	3	3	30	25	3	3	31
Total	938	308	455	1,701	941	291	481	1,713	945	303	498	1,746

[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] 1994 through 2003

Activity	1994	1995	1996	1997	1998	1999[3]	2000	2001	2002	2003
School of Medicine[2]	1,599	1,598	1,687	1,900	2,039	2,194	2,260	2,421	2,471	2,819
Other Academic: Business, Earth Sciences, Education, Engineering, Humanities and Sciences, Law	1,215	1,270	1,272	1,328	1,353	1,350	1,375	1,493	1,506	1,576
Dept of Athletics, Physical Education and Recreation	83	97	100	101	110	117	131	128	123	127
Dean of Research	269	278	303	304	300	373	375	391	427	448
Stanford Linear Accelerator Center	1,355	1,311	1,310	1,300	1,271	1,287	1,286	1,385	1,415	1,432
Student Services: Student Affairs, Admissions & Financial Aid	251	253	226	225	240	249	237	257	248	266
Libraries[6]	302	309	326	342	374	372	377	456	466	515
ITSS (Information Technology Systems and Services)	279	354	369	391	407	409	436	518	498	457
Office of Development	137	135	138	126	129	136	147	156	153	155
University Lands and Buildings Facilities Project Management, O&M, Procurement, Public Safety, Risk Management	436	447	456	471	469	350	340	376	375	389
Residential and Dining Enterprises	267	267	277	285	323	331	338	373	404	488
Stanford Alumni Association[4]					84	76	88	108	113	96
Other: Hoover[6], Learning Technology and Extended Education, Research Libraries Group ('93-'94), VPUE ('98-present), Miscellaneous	351	240	228	239	278	283	296	282	274	222
Administration[5] Finance, President's Office, Provost's Office, University Counsel, Press (until 2003/04) VP for Public Affairs (2003/04)	540	472	522	549	595	685	699	716	698	642
TOTAL	7,084	7,031	7,214	7,561	7,972	8,212	8,385	9,060	9,171	9,634
Percent Change	(6.0%)	(0.7%)	2.6%	4.8%	5.4%	1.9%	2.1%	8.1%	1.2%	5.0%

Notes

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.

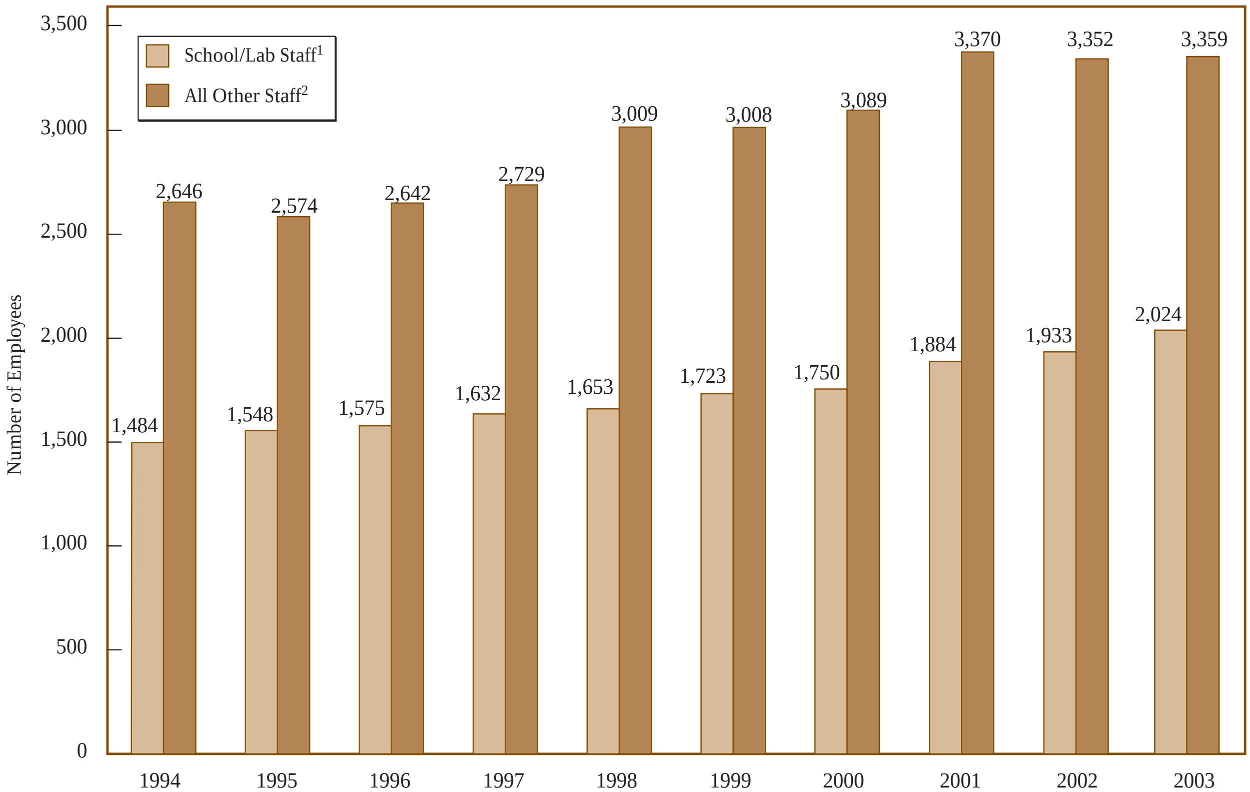
4 The Stanford Alumni Association was an outside organization prior to 1998.

5 The staff members in BISA (Business Information Systems Applications) 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 and the University Press in 2002/03.

SCHEDULE 12

STAFF EMPLOYEES IN UNITS OTHER THAN MEDICINE OR SLAC
1994 THROUGH 2003, AS OF DECEMBER 15 OF EACH YEAR



NOTES

[1] School/Lab staff includes staff employees in Dean of Research and all schools, except Medicine.

[2] All other staff includes staff employees in all units other than the Schools, Dean of Research and SLAC.

SCHEDULE 13

2004/05 Projected Consolidated Budget Fringe Benefits Detail

[in thousands of dollars]

Fringe Benefits Program	2001/02 Actual Expenditures	2002/03 Actual Expenditures	2003/04 Negotiated Budget	2003/04 Projected Year-End	2004/05 Projected Budget	Increase/Decrease 2003/04 to 2004/05	
Pension Programs							
University Retirement	60,300	68,724	72,048	73,573	76,532	2,959	4.0%
Social Security	59,632	63,538	66,290	66,628	69,405	2,777	4.2%
Faculty Early Retirement	5,736	6,542	6,320	7,492	7,755	263	3.5%
Other	1,259	460	621	6,621	4,192	(2,429)	(36.7%)
Total Pension Programs	126,927	139,264	145,279	154,314	157,884	3,570	2.3%
Insurance Programs							
Medical Insurance	38,818	39,440	47,814	47,346	54,652	7,306	15.4%
Retirement Medical	11,893	20,450	17,782	18,149	16,363	(1,786)	(9.8%)
Worker's Comp/LTD/ Unemployment Insurance	12,717	13,515	13,344	16,420	18,980	2,560	15.6%
Dental Insurance	7,214	7,643	9,279	8,720	9,359	639	7.3%
Group Life Insurance/Other	4,482	7,238	8,104	9,198	10,478	1,280	13.9%
Total Insurance Programs	75,124	88,286	96,323	99,833	109,832	9,999	10.0%
Miscellaneous Programs							
Severance Pay	2,447	6,136	3,745	3,105	3,055	(50)	(1.6%)
Sabbatical Leave	10,442	9,451	10,407	10,980	11,364	384	3.5%
Other	9,685	10,587	12,855	11,618	11,229	(389)	(3.3%)
Total Miscellaneous Programs	22,574	26,174	27,007	25,703	25,648	(55)	(0.2%)
Total Fringe Benefits Programs Expenses	224,625	253,724	268,609	279,850	293,364	13,514	4.8%
Carry-forward/Adjustment from Prior Year(s)	(2,237)	(4,518)	6,635	6,635	13,621	6,986	105.3%
Total Expense with Carryforward/Adjustments	222,388	249,206	275,244	286,485	306,985	20,500	7.2%
Budgeted Fringe Benefits Rate	25.0%	24.8%	26.4%	26.9%	27.6%		

Note:

The university has four fringe benefit rates for 2004/05, and the single rate shown just above is the weighted average of those rates. The four rates are 30.5% for regular employees, which includes all faculty and staff with continuing appointments of half-time or more, 19.1% for postdoctoral scholars, 8.9% for contingent (casual or temporary) employees, and 3.4% for graduate research and teaching assistants.

SCHEDULE 14

Sponsored Research Expense by Agency and Fund Source[1]
1996/97 through 2002/03
[in thousands of dollars]

	1996/97	1997/98	1998/99	1999/00	2000/01	20001/02	20002/03
US Government							
Subtotal for US Government Agencies	336,661	347,109	358,942	371,180	391,156	432,967	488,110
Agency[2]							
DoD	53,984	53,593	54,569	45,689	49,246	52,571	55,381
DoE (Not including SLAC)	8,309	10,523	13,176	18,483	21,760	22,391	24,496
NASA	84,449	77,707	67,492	63,194	54,767	67,069	87,311
DoEd	2,173	2,433	2,489	2,302	3,618	2,278	1,123
HHS	141,897	155,643	170,403	186,032	204,461	227,167	256,049
NSF	32,730	34,050	36,303	39,060	39,112	41,580	44,070
Other US Sponsors	13,119	13,160	14,509	16,422	18,193	19,911	19,680
Direct Expense-US	252,806	263,674	268,547	275,853	287,865	319,559	364,036
Indirect Expense-US[3]	83,855	83,435	90,395	95,327	103,291	113,408	124,074
Non-US Government							
Subtotal for Non-US Government	48,836	53,941	58,095	73,094	73,012	84,390	87,352
Direct Expense-Non US	39,430	43,671	47,022	58,538	59,209	68,519	72,632
Indirect Expense-Non US	9,406	10,270	11,073	14,556	13,803	15,871	14,719
Grand Totals-US plus Non-US							
Grand Total	385,497	401,050	417,037	444,275	464,168	517,356	575,461
Grand Total Direct	292,236	307,345	315,569	334,392	347,074	388,077	436,668
Grand Total Indirect	93,261	93,705	101,468	109,883	117,093	129,279	138,793
% of Total from US Government	87.3%	86.6%	86.1%	83.5%	84.3%	83.7%	84.8%

[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
DoEd=Department of Education
HHS=Health & Human Services
NASA=National Aeronautics and Space Administration
NSF=National Science Foundation

[3] DLAM indirects are included in this figure.

SCHEDULE 15

Plant Expenditures by Unit[1]
1996/97 through 2002/03
[in thousands of dollars]

Unit	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
GSB	2,767	9,499	14,400	11,644	1,173	2,993	161
Earth Sciences	1,754	3,703	250	1,321	511	941	132
Education	1,127	3,478	454	297	587	(50)	128
Engineering	26,509	44,076	40,801	12,221	2,696	15,541	7,361
H&S	28,576	34,023	22,409	14,006	32,934	17,927	39,421
Law	391	1,208	1,031	156	1,838	6,586	1,475
Medicine[2]	10,908	22,821	40,902	47,888	6,716	14,240	11,143
Libraries	10,000	16,216	17,823	8,937	3,267	6,483	11,485
DAPER	7,856	6,369	7,007	10,666	13,803	5,708	10,583
Housing	43,398	20,023	30,317	57,206	29,195	40,255	35,434
All Other[3]	54,004	98,339	104,361	143,075	140,327	154,837	135,229
Total	187,290	259,755	279,754	307,418	233,048	265,460	252,541

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
1992/93 through 2002/03

Year	Market Value of the Endowment (in thousands)[1]	Annual Nominal Rate of Return	Annual Real Rate of Return[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%)
2002/03	8,613,805	8.8%	7.3%

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: 1992/93 through 2002/03

[in millions of dollars]

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	Avg Annual % Change 1992/93-2002/03
Academic Units:												
School of Earth Sciences	11.9	9.8	11.2	12.4	13.9	14.1	14.4	18.9	21.3	22.9	23.8	7.2%
School of Education	3.2	4.1	5.1	5.6	4.7	4.8	7.1	8.6	9.3	10.1	10.6	12.9%
School of Engineering	46.9	49.0	59.1	67.9	76.8	94.1	105.2	109.6	112.8	115.6	123.3	10.1%
Graduate School of Business	20.7	23.5	23.4	27.6	27.9	29.3	33.3	39.9	38.9	35.5	44.3	7.9%
School of Humanities & Sciences	44.0	49.8	53.6	53.7	65.9	74.2	80.2	86.3	113.6	141.2	140.6	12.3%
School of Law	7.5	5.3	5.7	6.2	8.6	10.9	10.7	11.3	13.2	15.9	17.2	8.7%
School of Medicine	154.1	167.3	171.8	196.6	209.5	225.6	252.2	270.9	309.4	328.0	354.5	8.7%
Dean of Research	27.4	28.7	27.7	41.0	44.0	49.1	53.2	42.4	53.4	59.0	67.1	9.4%
Hoover Institution	2.6	2.0	5.0	8.3	9.0	13.1	18.9	22.0	24.8	26.0	33.0	28.8%
VP for Undergraduate Education						1.0	5.4	7.5	9.9	10.1	11.9	
Total Academic Units	318.2	339.5	362.7	419.2	460.4	516.2	580.6	617.4	706.5	764.3	826.4	10.0%