Stanford University Budget Plan

2005/06

Submitted for Action to the Board of Trustees
June 6–7, 2005

This publication can also be found on the World Wide Web at:
http://www.stanford.edu/dept/pres-provost/budget/plans/plan06.html

Executive Summary

To The Board of Trustees:

I am pleased to submit Stanford University's 2005/06 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.[1]

Some of the Highlights of the Plan:

- The Consolidated Budget for Operations reflects an anticipated surplus of $49.2 million on $2.9 billion of revenues, $2.8 billion in expenditures, and $50 million of transfers. The Consolidated Budget revenues are expected to grow by 7.6% over the projected 2004/05 actual results, driven principally by growth in investment income, health care services, and research.

- The Consolidated Budget includes $746 million in general funds, of which $127 million flows to the Graduate School of Business, the School of Medicine, the Hoover Institution, and the Continuing Studies Program in accordance with previously agreed-upon formulas.

- The general funds allocations controlled directly by the Provost are expected to grow by $51 million in 2005/06. Of this, $10.6 million is being held as an unallocated reserve.

- The Capital Budget calls for $373 million in expenditures next year. These expenditures are in support of a three-year Capital Plan that, if fully completed, would require $1.3 billion in total project expenditures. Major facilities under construction next year will include the Munger Graduate Residences, the Astrophysics building, renovation of the Old Union complex, and the Environment and Energy building.

- In this Budget Plan we show the projected 2005/06 results consistent with the Generally Accepted Accounting Principles format displayed in the university's annual financial statements. The projected Statement of Activities shows a $27.4 million surplus.

PRIORITIES

The Budget Plan for 2005/06 reflects a number of key institutional priorities:

- **Compensation** – Our compensation programs for faculty and staff will allow Stanford to maintain a competitive position in the relevant markets. We have also allocated funds to address those categories of faculty and staff where we are less competitive. On the benefits side, we anticipate the overall benefits rate for regular employees will remain flat at 30.5%. The component of the rate for health benefits will increase from 7.4% to 8.2%, but is offset by lower rates for employee and retiree health insurance costs and the defined benefit pension and worker's compensation plans.

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[1] 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.

- **Infrastructure Charge** – We plan to implement the new infrastructure charge policy, with a rate of 8%, on most designated revenue and restricted funds expenditures. The infrastructure charge will provide additional funding for facility maintenance and renewal, and for administrative support both centrally and at the department level.

- **Planned Maintenance** – In response to the Investment in Plant analysis described in the Capital Plan section of this book, we have added $2 million to the planned maintenance budget, which provides for the maintenance of campus infrastructure and the scheduled renewal of major building subsystems. This is the second year of a multi-year plan to add $6 million to this budget, an amount that, along with currently budgeted amounts, should allow us to avoid deferred maintenance on the academic campus.

- **Compliance Costs** – We are addressing a number of new compliance needs in this budget. There is increased funding for research compliance staff, for environmental health and safety, and for occupational health programs. We are also providing increased funding to the Business Affairs operation to support the Controller's Office and the Office of Research Administration in their compliance work.

- **Academic Initiatives** – This budget reflects, in many areas, the expansion and enhancement of important academic priorities.

  - Under the auspices of the schools of Medicine and Engineering, the Bioengineering Department will continue its orderly growth next year with the addition of two new faculty members.

  - Earth Sciences is building two new centers: the Center for Computational Earth and Environmental Sciences will be a multidisciplinary research center, and the Groundwater Evaluation and Management Center will focus on the challenging issues of finding and maintaining clean sources of water.

  - Engineering will also continue to advance the new Design Institute, an interdisciplinary program that blends engineering innovation and business and manufacturing issues into a single curriculum.

  - The Law School will focus on enhancing its clinical education programs and expanding selectively its numerous interdisciplinary research, teaching, and policy programs.

  - The Medical School will build upon the recent creation of the Stanford Institutes of Medicine and three strategic research centers. The institutes and centers create bridges between the basic and clinical science communities and between the school and other areas of the university.

  - In Humanities and Sciences, several renovation and new facilities projects will be operating in 2005/06, including the Archaeology Center in Building 500, the Center for Computer Research in Music and Acoustics, and the new Astrophysics building.

  - Now in its tenth year, the Office of the Vice Provost for Undergraduate Education will develop a plan to assess its past effectiveness and future directions. However, there will be no letup in the continuing effort to improve offerings for undergraduates: efforts to enhance advising will continue, and funding will be provided for the final year's implementation of the requirement in the Program in Writing and Rhetoric.

- **Development** – The development office will increase staff in order to build a higher level of support for the anticipated upcoming capital campaign. Additional funding will also be allocated to enhance the stewardship function.

- **Financial Aid** – Stanford continues to offer one of the most generous financial aid programs in the country. Next year's budget provides adequate funding to maintain our policy of admitting undergraduate students without regard to their ability to pay and to provide financial aid based on their demonstrated need.

- **Student Housing** – Student housing continues to be an important institutional priority, and the 2005/06 budget reflects costs for the planning phases of the Munger Graduate Residences project and the Manzanita III facility. Construction for these facilities is expected to begin during the 2005/06 fiscal year.

CONSOLIDATED BUDGET FOR OPERATIONS

The table on page vi shows the main revenues and expenses for 2005/06 and compares those numbers to the forecast of actual results for the current year. These figures include the incremental costs for the programs and initiatives noted above. Some highlights of both revenues and expenses follow.

Revenue

Student Income – This figure is the sum of tuition and room and board income. Tuition is projected to grow 3.4% over the projected 2004/05 actuals, as the result of increases in the tuition rate (4.5% for undergraduates and general graduate tuition), and a modest drop (1.5%) in the numbers of graduate students. Graduate students have been increasing 2-3% in recent years, so a reduction will bring us closer to a longer term sustainable level. Room and board income is projected to increase by 3.3%, due to a 4.5% increase in the standard undergraduate room and board rate and the reduction in need for off-campus housing subsidies for graduate students.

Sponsored Research – We are budgeting an 8.3% growth in sponsored research. This growth is driven by a 20.9% increase at SLAC, where the construction of the Linac Coherent Light Source accounts for most of the growth. Direct research outside of SLAC is forecasted to grow at 4.2%, a more modest growth compared to the growth rates of recent years. Indirect cost recovery is expected to be up by 2.5%, as a result of the increase in direct activity, offset partially by a reduction in the negotiated overhead rate from 57% to 56%.

Expendable Gifts – The Office of Development anticipates that revenue from non-capital gifts available for current expenses will grow by 4.0% in 2005/06 to $130 million. (This line does not include gifts to endowment or for capital projects.) In addition, net assets released from restrictions—primarily payments made on prior year pledges—are expected to remain constant at $50 million.

Investment Income – This category includes income paid out to operations from the endowment and from the Expendable Funds Pool (EFP). Overall, investment income is expected to increase by 10.2%. Endowment income is expected to increase next year by 11.0%, including payout from $290 million in projected new gifts to the endowment. The spending rates approved by the Board of Trustees in February 2005 yield a smoothed payout rate of 4.44% compared to our target rate of 5.00%. Other investment income is expected to grow approximately 6.4% over the 2004/05 projected year-end actuals.

Expense

Salaries and Benefits – We anticipate total salaries and benefits expense to increase 5.8% over the projected year-end actuals. Academic salaries are expected to increase by 5.5%, driven by a competitive salary program and a small increase in the number of faculty. Staff salary expense

Consolidated Budget for Operations, 2005/06

[in millions of dollars]

2003/04 Actuals	2004/05 Projected		2005/06 Consolidated Budget	2004/05 to 2005/06 Percent Increase
		Revenues and Other Additions		
460.5	496.5	Student Income	513.3	3.4%
923.5	1,003.0	Sponsored Research Support	1,086.1	8.3%
243.6	256.4	Health Care Services	295.4	15.2%
103.8	125.0	Expendable Gifts in Support of Operations	130.0	4.0%
477.3	529.9	Investment Income	584.2	10.2%
251.1	255.8	Special Program Fees and Other Income	263.4	3.0%
43.5	50.0	Net Assets Released from Restrictions	50.0	0.0%
2,503.3	2,716.6	Total Revenues	2,922.4	7.6%
		Expenses		
1,294.1	1,393.1	Salaries and Benefits	1,474.4	5.8%
233.8	263.0	SLAC	318.0	20.9%
128.0	135.2	Financial Aid	142.0	5.0%
803.9	855.4	Other Operating Expenses	888.7	3.9%
2,459.8	2,646.7	Total Expenses	2,823.1	6.7%
43.5	69.9	Revenues less Expenses	99.3	
(8.9)	(27.6)	Transfers	(50.1)	
34.6	42.3	Surplus/(Deficit)	49.2	

growth is budgeted to grow at 6.5% as a result of our merit program and an increase in staff headcount. The benefits rate will remain flat for 2005/06 at 30.5%. Net benefits expense is expected to increase commensurate with salaries since the principal fringe rate will remain unchanged.

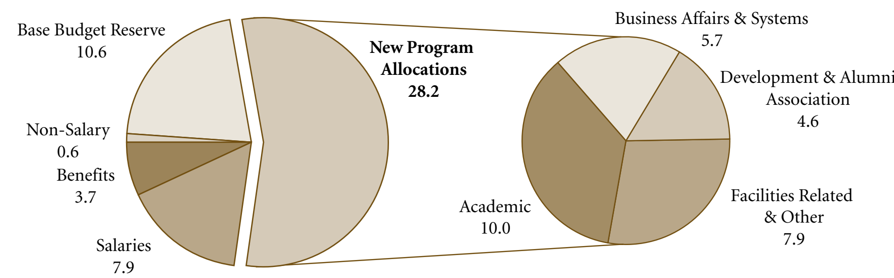
Other Operating Expenses – This line item is composed principally of operations and maintenance (O&M) costs, utilities, capital equipment, materials and supplies, travel, library materials, subcontracts, and professional services. We are budgeting a growth of 3.9% overall for this category.

GENERAL FUNDS BUDGET

The General Funds budget, as noted previously, is a critical component of the Consolidated Budget for Operations. The general funds allocations controlled directly by the Provost are expected to grow by $51 million next year. As shown in the chart on the next page, $10.6 million is an unallocated surplus, which will be held as a base budget reserve. Another $12.2 million of the increment is for compensation growth and price inflation. This figure includes funding for the faculty and staff salary programs and benefits increases. The remaining $28.2 million is for net incremental academic and administrative program expense. The chart also shows how the $28.2 million is distributed among the various institutional priorities and categories. Because general funds support the bulk of Stanford's administrative, compliance, fund raising, and facilities costs for the entire Consolidated Budget, it is not surprising that much of the budgeted increment covers these costs.

2005/06 Incremental General Funds Allocations: $51 Million

[IN MILLIONS OF DOLLARS]



CAPITAL BUDGET AND PLAN

The Capital Budget for 2005/06 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, 2005/06, as well as projects that will be started during the three-year period from 2005/06 to 2007/08. Since some projects in the plan will not be complete by the end of 2007/08, 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 2005/06.

Capital Plan, 2005/06 – 2007/08

This year's Capital Plan forecasts $1.3 billion in construction and infrastructure projects and programs that are currently underway or planned to begin over the next three years.

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

The three-year Capital Plan includes a dozen major projects and numerous infrastructure projects and programs. Most of these projects are multi-year efforts and all are scheduled to be completed by the end of 2008/09. The three-year plan will be funded from $190.9 million in current funds; $706.7 million in gifts ($118.1 million is in hand or pledged, and $588.6 is to be raised); $106.6 million in auxiliary and service center debt; $244.0 million in academic debt; $49.7 million in resources to be identified; and $3.1 million from other sources.

Seven of the eight new buildings planned for the Science, Engineering, and Medical Campus initiative comprise a significant portion of the capital plan. These include Environment and Energy, the School of Engineering Center, a replacement for the Ginzton Laboratory, two Medical School buildings, Astrophysics, and Biology. The cost of these projects is almost $600 million. Another major component of the plan is the Off-Site Campus land acquisition, forecasted at $86 million. The acquisition is currently in a due diligence phase, with the transaction expected to be completed in 2005/06. A final element is housing, with $193 million in anticipated costs reflected in the capital plan. Most notable here are the Munger Graduate Residence and the Manzanita III Hall and Dining project.

At plan completion, incremental annual internal debt service is expected to be $28.1 million, of which $8.7 million will be serviced by auxiliary or service center activities, $7.5 million will be paid for by unrestricted funds, and $2.3 million will be paid by the formula schools of Business and Medicine. The remaining $9.6 million is related to funding the SEMC projects and will be paid by a combination of unrestricted funds and formula school reserves. Incremental O&M costs are expected to total $17.7 million per year, of which $5.2 million will be paid by unrestricted funds, $9.6 million by the formula schools, and $2.9 million by auxiliaries and service centers.

Investment in Plant – An important area of emphasis in this year's capital planning effort was an extensive analysis of Stanford's investment in its physical plant. In the analysis, we attempted to answer three critical questions: 1) Is Stanford investing enough capital to preserve its existing facilities? 2) What is the level of investment required to replace or renovate buildings and infrastructure when they have reached the end of their useful lives? 3) What are the capital requirements for new facilities to be built under the General Use Permit?

A model has been developed that allows a thorough understanding of the investment required in each of these areas. It includes annual financial projections for the next several decades for maintenance, for renovation and replacement, and for new buildings. In the maintenance area, we will continue to allocate funds until the necessary amount is in the base budget—a goal that should be achievable in the next 2-3 years. Funding for renovation and new facilities will require additional debt and fundraising. Various academic and service areas will face different challenges in this regard. For example, the student housing area will have to rely heavily on gifts to fund major renovations and new residences. But overall, funding increases will need to come from school and department reserves, an increase in debt allocations, and a continued emphasis on fundraising. (More detail may be found in Section 3.)

Capital Budget, 2005/06

The Capital Budget for 2005/06 represents the maximum capital expenditures anticipated for the upcoming year. This amount is $373.3 million and will be reached only if all projects are initiated at their earliest scheduled dates. 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 2005/06 Capital Budget in two ways:

- By Use: 45% for academic/research facilities; 23% for academic support; 16% for housing; 10% for infrastructure; and 6% for athletics/student activities.
- By Type of Space: 50% for new projects (Munger Graduate Residences, Astrophysics, Stanford Institutes of Medicine #1); 23% for the off-site acquisition, 17% for renovation projects (Old Union), and 10% for infrastructure projects.

The 2005/06 Consolidated Budget for Operations includes incremental internal debt service and operations and maintenance expenses for projects completing in 2005/06 and for projects completed in 2004/05 that were operational for less than twelve months. The projected impact of the additional internal debt service and O&M expenses is $5 million and $1 million, respectively.

REQUESTED APPROVAL AND ORGANIZATION OF THIS DOCUMENT

This Budget Plan provides a university-level perspective on Stanford's financial and programmatic plans for 2005/06. We seek approval of the planning directions, the principal assumptions, and the high-level supporting budgets contained herein. As the year unfolds, we will make periodic variance reports on the progress of actual revenues and 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 2005/06. Section 2 surveys program issues in the academic areas of the university. Section 3 contains details on the Capital Plan for 2005/06 – 2007/08 and the Capital Budget for 2005/06. The Appendices include budgets for the major academic units and supplementary financial information.

CONCLUSION

Thanks to the improved financial outlook, this year provided a welcome respite following several years of budget retrenchment and restraint. We took this opportunity to address several long-term issues that are crucial to the future health of the institution, though difficult to finance in lean budget years. Principal among these are investments in infrastructure and plant, compliance, administrative systems and support, and development and alumni relations. The budget also allows us to provide competitive salary programs for both faculty and staff, and to pursue many exciting academic initiatives throughout the university. We did not allow budget reductions taken in past years to be reversed, and required a few units to further reduce certain programs. Of $50 million in incremental general funds, we held back slightly more than $10 million as a cushion against future uncertainty.

This budget is the product of many individuals and many hours, from the hardworking budget officers in the schools and administrative units, to the outstanding staff in our central budget and capital planning offices. As always, I could not have made the multitude of decisions required in this process without the help of my two key advisory groups. The University Budget Group this year consisted of Artie Bienenstock, Patty Gumport, Rosemary Knight, Randy Livingston, Kären Nagy, Channing Robertson, Dana Shelley, Bob Simoni, and Buzz Thompson, ably led by Tim Warner, and with stellar analytic contributions from Steve Olson. This group's broad perspective and wise advice are invaluable in developing the General Funds allocations. The university owes them a debt of gratitude for their many hours of hard work. The Capital Planning Group, which develops the capital plan and budget, consisted of Megan Davis, Stephanie Kalfayan, Sandy Louie, Bob Reidy, Craig Tanaka, Bob Tatum, Tim Warner, and Mark Zoback, guided with patience and candy by Margaret Dyer-Chamberlain. The capital planning process is also supported by the Land and Buildings Development Committee (Chris Christofferson, Charles Carter, Jack Cleary, Dave Lenox, Howard Leung, Tim Portwood, and Gary Rotzin) and the CFO's Office (Odile Disch-Bhadkamkar and Randy Livingston). I am grateful for everyone's contribution to both projects.

This year three special efforts deserve particular acknowledgement. First is the work required to implement the revised infrastructure policy. This falls mainly on the Controller's Office and the Budget Office, with Suzanne Calandra and Dana Shelley shouldering most of the burden. The revised infrastructure charge is what has enabled the crucial investment in plant maintenance, campus infrastructure, and institutional compliance achieved in this year's budget. Second is the care and insight that went into the Investment in Plant study. I am convinced that through this study we have developed both data and a methodology that will serve the institution well for many decades to come. Again, many people contributed to this excellent effort, but Megan Davis deserves special thanks for her intelligent guidance of the study. Third is the extraordinary effort and long hours that the staff in Humanities and Sciences, in particular Ellie Fischbacher, Jim Henry, and Kären Nagy, have put into the school's budget plans. I join Dean Long in thanking them for their dedication to the school and university.

John W. Etchemendy,
Provost
June 2005