STANFORD UNIVERSITY
BUDGET PLAN
2006/07

This Budget Plan was approved by the Stanford University Board of Trustees June 15, 2006. Distribution of this document is made in the interest of greater understanding of the University's Budget and the processes through which it is annually determined.

This publication can also be found at:
http://www.stanford.edu/dept/pres-provost/budget/plans/plan07.html

EXECUTIVE SUMMARY

To The Board of Trustees:

I am pleased to submit Stanford University's 2006/07 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 $62.9 million on $3.191 billion of revenues, $3.066 billion in expenditures, and $61.8 million in transfers. It is shown on a cash basis and under the principles of fund accounting. The Consolidated Budget revenues are expected to grow by 7.2% over the 2005/06 projected actual results, driven principally by growth in investment income and health care services.
- The Consolidated Budget includes $809.3 million in general funds, of which $123.6 million flow to the Graduate School of Business, the School of Medicine, and the Continuing Studies and Summer Session programs in accordance with previously agreed-upon formulas. After other transfers and adjustments, there remains $675.4 million in general funds to be allocated directly by the Provost. This represents a 9.6% increase in the non-formula general funds component of the Consolidated Budget and includes a $12.2 million budgeted surplus that we are holding in reserve for future needs.
- The Capital Budget calls for $357.6 million in expenditures next year. These expenditures are in support of a three-year Capital Plan that, if fully completed, would require $2.2 billion in total project expenditures. Major facilities under construction next year will include the Munger Graduate Residences and the Environment and Energy building.
- This Budget Plan also presents the projected 2006/07 results in a format consistent with Generally Accepted Accounting Principles, as reported in the university's annual financial report. The projected Statement of Activities shows a $44.7 million surplus.

STRATEGIC PRIORITIES

Over the past several years Stanford has conducted a series of planning efforts resulting in several important university-wide strategic initiatives. These initiatives center around Stanford's unique capabilities and potential in teaching and research to address several global issues: to advance the agenda for improving human health, to address issues facing the environment, and, in an age of globalization, to seek ways to improve international cooperation and security. In addition, we have completed a comprehensive review of graduate education under the auspices

---

[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.

of the Commission on Graduate Education. This effort will yield several important initiatives to strengthen our graduate programs. Another major initiative centers on the arts, where we are committed to improving both our programmatic offerings and our arts facilities. Finally, there are a number of academic initiatives based in each school. These are detailed in Section 2 of this document.

These strategic initiatives played a crucial role in the development of our budget for next year, and in particular for the multi-year capital plan. Several initiatives will require significant investment in new and renovated space. In developing the capital plan for the next several years we have fully recognized and responded to these needs. But as a result, our capital plan of $2.2 billion is twice the size of previous capital plans reported in this document. It is important to keep in mind, however, that these projects assume substantial amounts of unidentified gift or reserve funding and they will only move forward when the funding goal is met. In addition, the three-year plan reflects facilities that are already under construction and also those that we anticipate will receive concept approval from the Board within the three-year window. Consequently, some of the facilities in the plan are not scheduled to be completed for as long as six years, even under the most optimistic funding assumptions.

Throughout this document we will refer back to these planning initiatives and attempt to reflect our budget priorities within them.

BUDGETARY PRIORITIES

Next year's budget priorities reflect support for the strategic initiatives, as well as for a number of key objectives necessary to maintain the ongoing operation of the university. The most notable priorities reflected in the 2006/07 budget are:

- **Compensation** – Our compensation programs for faculty and staff will help Stanford maintain a competitive position in the relevant employment markets. In addition to a competitive merit-based program, we have allocated additional funds to address those categories of faculty and staff where we have fallen behind the prevailing market. On the benefits side, we anticipate the benefits rate for regular employees will drop from 30.5% to 29.7%, due more to slight actuarial adjustments than to any fundamental shifts in the cost structure of our insurance programs or other benefits.

- **Infrastructure** – A perennial challenge in the budgeting process is to maintain an adequate infrastructure to support a dynamic university that continues to grow and renew itself. For example, after years of major capital investments in new administrative systems, we are now building budgets to provide essential support and maintenance for these systems. We continue, as well, to provide for enhancements to the security of our systems and our capacity for academic computing.

- **Compliance Costs** – Stanford's compliance function must keep pace with the growth of research seen in recent years. Although the majority of this research is federally funded, an increasing proportion is funded by gifts and grants that do not cover indirect costs. This budget calls for an additional $2.0 million for research compliance staffing, as well as funds for environmental health and safety and other non-research based compliance areas.

- **Undergraduate Financial Aid** – As was announced in February, Stanford eliminated parental contributions for students whose family income was less than $45,000, and cut in half the parental contribution for families with incomes between $45,000 and $60,000. We have also supported an expanded outreach effort in the undergraduate admission office, in part to communicate these changes.

- **Facilities Support –** Unlike some universities, Stanford's physical plant is generally well maintained, with relatively little deferred maintenance. Two years ago, however, we committed to a multi-year effort to fully fund the maintenance budget at an incremental annual cost of $6.0 million. This budget provides $1.3 million toward meeting that goal. When completed, this effort will eliminate our deferred maintenance backlog and the potential for any future build-up.

- **Development –** The development office will increase staff in order to support the anticipated upcoming capital campaign.

- **School-Based Academic Initiatives –** This budget reflects the expansion and enhancement of important academic priorities in many areas. Some examples include:

  - The School of Earth Sciences plans to invest in enhanced analytic facilities for research and will be filling faculty positions in climate science and computational geosciences.

  - The Medical School plans to add 34 incremental faculty, most of whom will be affiliated with the new Stanford Institutes of Medicine.

  - The Law School will continue to strengthen its clinical programs and will add a non-profit general counsel clinic in next year's budget.

  - The School of Engineering will continue its build-up of faculty positions in Bioengineering, as well as supporting its other strategic initiatives in environment and energy, information technology, and nanoscience.

  - The School of Humanities and Sciences continues to face budgetary challenges due to faculty recruitment costs, salary pressures, and local housing costs for faculty. An allocation of an incremental $2.0 million in base general funds will help to address this problem. In addition, the President and Provost have provided significant one-time funds to cover immediate shortfalls.

  - The Office of the Vice Provost for Undergraduate Education will expand support for undergraduate research opportunities and residence-based advising.

CONSOLIDATED BUDGET FOR OPERATIONS

The table on page vi shows the main revenue and expense line items for 2006/07 and compares those numbers to the projection 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.

Revenue

Student Income – This figure is the sum of tuition and room and board income. Tuition is anticipated to grow 5.0% over the projected 2005/06 actuals, as the result of a 5.75% increase in the general undergraduate and graduate tuition rates and increases between 4.0% and 4.9% in the professional schools. The number of undergraduate students is expected to grow slightly, with graduate enrollment remaining flat. Room and board income is projected to increase 3.2%, due to a 4.4% increase in the standard undergraduate room and board rate and a reduction in university-funded subsidies for graduate students living off campus.

Sponsored Research – Overall sponsored research is budgeted to grow 4.2% over the projected year-end actuals. This growth is driven by a 17.1% increase at SLAC, where an expansion of the facility and increase in activity account for the growth. Direct research outside of SLAC

Consolidated Budget for Operations, 2006/07

[in millions of dollars]

2004/05 Actuals	2005/06 Projected Actuals		2006/07 Consolidated Budget	Percent Increase
		Revenues and Other Additions		
493.0	518.1	Total Student Income	543.8	5.0%
		Sponsored Research Support:		
563.6	552.3	Direct Costs-University	541.3	(2.0%)
237.3	295.0	Direct Costs-SLAC	345.4	17.1%
172.2	172.2	Indirect Cost	175.6	2.0%
973.1	1,019.5	Total Sponsored Research Support	1,062.3	4.2%
282.1	322.3	Health Care Services	354.0	9.8%
143.9	145.0	Expendable Gifts in Support of Operations	152.0	4.8%
528.6	611.9	Investment Income	706.5	15.5%
291.9	285.6	Special Program Fees and Other Income	297.5	4.2%
73.9	75.0	Net Assets Released from Restrictions	75.0	0.0%
2,786.5	2,977.4	Total Revenues	3,191.1	7.2%
		Expenses		
1,397.3	1,509.7	Salaries and Benefits	1,608.7	6.6%
237.3	295.0	SLAC	345.4	17.1%
136.9	143.0	Financial Aid	152.7	6.8%
864.8	920.2	Other Operating Expenses	959.6	4.3%
2,636.3	2,867.9	Total Expenses	3,066.4	6.9%
150.2	109.5	Revenues less Expenses	124.7	
(57.3)	(48.9)	Transfers, Principally to Facilities & Endowment	(61.8)	
92.9	60.6	Surplus	62.9	

is expected to drop by 2.0%, due to a decline in research funding from federal agencies, in particular the National Institutes of Health, and to the completion of several very large projects at the Hansen Experimental Physics Laboratory (HEPL). Indirect cost recovery (ICR) is expected to grow slightly in 2006/07, since the projected decrease in direct research is mainly due to the completion of large subcontracts that do not draw ICR. The indirect cost rate is expected to remain at 56%.

Health Care Services Income – Revenue for health care services is projected to increase 9.8% in 2006/07, due primarily to an 11.1% increase in the amount paid to the Medical School by Stanford Hospital and Clinics and Lucile Packard Children's Hospital related to physician services of its faculty.

Expendable Gifts – The Office of Development anticipates that revenue from non-capital gifts available for current expenses will grow by $7 million in 2006/07 to $152 million. This does not include gifts to endowment or for capital projects, which do not appear in the Consolidated Budget for Operations. In addition, net assets released from restrictions—including payments made on prior year pledges and prior year gifts released for current use—are expected to remain constant at $75 million.

Investment Income – This category consists of income paid out to operations from the endowment and from other investment income, principally the Expendable Funds Pool (EFP). Overall, investment income is expected to increase by 15.5%. Income from the endowment itself is expected to increase next year by 12.0%, including payout on $325 million in projected new gifts to the endowment. The spending rates approved by the Board of Trustees in February 2006 yield a projected smoothed payout rate of 4.35% compared to our target rate of 5.0%. Other investment income is expected to grow by 36.6% over the projected year-end actuals, due primarily to a Board approved increase from 4.5% to 5.5% in the guaranteed payout rate on the majority of funds held in the EFP.

Infrastructure Charge – A new infrastructure charge policy, which took effect on September 1, 2005, increases the infrastructure charge from 6% to 8% for both new and existing funds. Under the new policy, 25% of the revenue generated by the charge is returned to the school where it was generated; formula schools and auxiliaries retain the full amount of the charge. We expect that revenue from the infrastructure change will increase from $7.2 million in 2004/05 to roughly $35 million in 2005/06. The general funds portion of the infrastructure charge revenue will increase from $4.4 million in 2004/05 to about $15 million in the current year.

Expense

Salaries and Benefits – We anticipate total salaries and benefits expense to increase 6.6% over the projected year-end actuals. Academic salary expense is expected to increase by 7.0%, driven by a competitive salary program and a small increase in the number of faculty. Staff salary expense growth is budgeted to grow at 5.5% as a result of our merit program and an increase in staff headcount. The benefits rate will decrease from 30.5% to 29.7% for 2006/07. Total benefits expense is expected to increase by 5.6%.

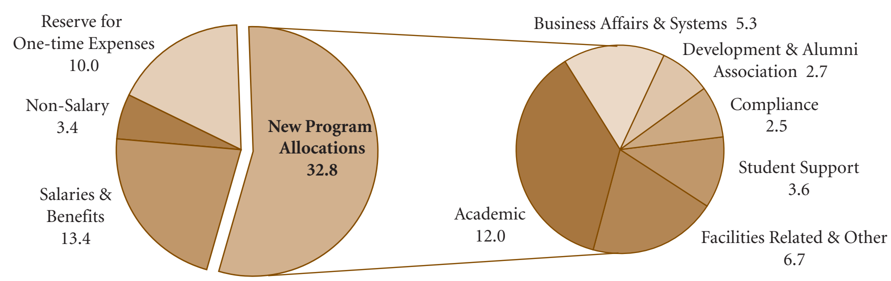
Other Operating Expenses – These line items are composed principally of operations and maintenance (O&M) costs, utilities, capital equipment, materials and supplies, travel, library materials, subcontracts, and professional services. We are budgeting a growth of 4.3% for these items.

GENERAL FUNDS BUDGET

The General Funds budget, as noted above, is a critical component of the Consolidated Budget for Operations. The general funds allocations controlled directly by the Provost are expected to grow by about $59 million, or 9.6%, next year. As shown in the chart below, $10.0 million will be added to the university reserve, which funds initiatives on a year-to-year basis and provides a buffer in case of future downturns. Another $16.8 million of the increment is for

2006/07 Incremental General Funds Allocations: $59.6 Million

[in millions of dollars]



compensation growth and price inflation on non-salary items. This figure includes funding for the faculty and staff salary programs and benefits increases. The remaining $32.8 million is for incremental academic and administrative program expense. The pie chart on the previous page also shows how the $32.8 million will be 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 must be devoted to these costs.

CAPITAL BUDGET AND PLAN

The Capital Budget for 2006/07 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, 2006/07, as well as projects that will be started during the three-year period from 2006/07 to 2008/09. Since some projects in the plan will not be completed by the end of 2008/09, 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 2006/07.

Capital Plan, 2006/07 – 2008/09

This year's Capital Plan forecasts $2.2 billion in construction and infrastructure projects and programs that are currently underway or planned to begin over the next three years. The Capital Plan has grown from last year's $1.3 billion to the projected level due to the inclusion of several major strategic initiatives: the Science, Engineering and Medical Campus (SEMC); a new campus and parking for the Graduate School of Business; the Redwood City campus redevelopment project; a performing arts center; Panama Mall renovations; and phase I of the undergraduate housing and dining master plan.

Although this year's plan presents a realistic view of our construction outlook, not all of the projects included in the Capital Plan are expected to 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. But many of the projects 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 initiated by the end of 2008/09. The three-year plan will be funded from $357.1 million in current funds; $1,100.8 million in gifts ($239.1 million is in hand or pledged, and $861.7 remains to be raised); $203.7 million in auxiliary and service center debt; $509.9 million in academic debt; and $53.2 million from other sources. An additional $96 million of debt is required to complete prior year projects no longer displayed in the three-year plan.

This Capital Plan is clearly the most ambitious in Stanford's history. It will provide facility support for the major institutional initiatives described above. Upon completion, Stanford will have upgraded its capacity to make major advances in the biosciences and bioengineering. Through the construction of the performing arts center, we will have achieved a long held goal of improving our support for the arts. In addition, the redevelopment of the Redwood City site will allow for the centralization of important university services in modern facilities off campus, thereby freeing up space on the central campus for academic expansion.

At plan completion, incremental annual internal debt service is expected to be $54.8 million, of which $16.9 million will be serviced by auxiliary or service center activities, $25.3 million will be paid for by general funds, and $12.6 million will be paid by the formula schools of Business and Medicine. Incremental O&M costs are expected to total $32.6 million per year, of which $13.6 million will be paid by general funds.

Investment in Plant – A year ago we completed an extensive analysis of the adequacy of our investment in Stanford's physical plant. The analysis attempted to answer the following questions: 1) Do we understand the level of investment required to maintain and optimize our existing facilities? 2) Do we understand the level of investment required to renovate buildings and infrastructure that have reached the end of their useful lives?

We have developed a model that provides credible answers to these questions. We forecast that the university will need to spend at roughly historical levels of $122 million per year (in 2005/06 dollars) to maintain an appropriate level of investment. The Capital Plan projects that we will continue at least at that level over the next several years.

Building Energy Retrofit Program – A dozen of Stanford's largest energy–consuming buildings will undergo major renovations over the next several years to reduce utility use. These facilities represent $15 million of energy expense and 25% of total campus energy use. Energy savings are estimated to be $4 million per year once the renovations are completed.

Capital Budget, 2006/07

The Capital Budget for 2006/07 represents capital expenditures for the upcoming year. The amount expected is $357.6 million. 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 2006/07 Capital Budget in two ways:

- By Use: 48% is devoted to academic/research facilities; housing, infrastructure, academic support, and athletics/student activities represent 25%, 15%, 9%, and 3%, respectively.
- By Type of Space: 62% of the funding is for new projects (Munger Graduate Residences, Environment and Energy); 22% for renovation projects (Old Union, 1050 Arastradero, and Roble Hall), and 16% for infrastructure projects.

The 2006/07 Consolidated Budget for Operations includes internal debt service of $128.3, which is a decrease of $4.6 million due to a one-time $10.4 million early principal repayment offset by increases for the new Astrophysics building and the renovation of the Old Union. In addition, it includes incremental O&M expenses of $1.1 million.

REQUESTED APPROVAL AND ORGANIZATION OF THIS DOCUMENT

This Budget Plan provides a university-level perspective on Stanford's programmatic and financial plans for 2006/07. 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 2006/07. Section 2 addresses program issues in the academic areas of the university. Section 3 contains details on the Capital Plan for 2006/07– 2008/09 and the Capital Budget for 2006/07. The Appendices include budgets for the major academic units and supplementary financial information.

CONCLUSION

Stanford's overall financial outlook, reflected in the Consolidated Budget, continues to be extremely strong. We have been blessed with outstanding investment results over the past several years, and our alumni, parents, and friends continue to provide gratifying levels of support for exciting new ventures. The only cloud in the financial outlook has been waning federal support of sponsored research, first in the physical sciences and now in the medical and biological sciences. I remain optimistic, however, that the federal government will renew its commitment to a science and technology engine unsurpassed in the world, and will find the means to continue investing in its maintenance.

In developing the general funds portion of the Consolidated Budget we face three principal challenges. The first is the need to support the growing infrastructure demands of activities funded outside the general funds budget. The growth of restricted and designated funds continues to far outpace the growth of general funds, and yet the activities supported by these funds rely on the general funds budget to provide the infrastructure—space, utilities, administrative support—essential to their success. Since the general funds budget also supports most of the core activities of the university, the growing infrastructure demands make it increasingly difficult to provide the necessary support for this core.

The second challenge is increasing national and international competition for the very best faculty, which manifests itself not only in escalating salaries in many schools and departments, but also in burgeoning startup and retention packages, particularly in the laboratory sciences. This second challenge is exacerbated by the third, which is the cost of housing, and more generally the cost of living, in the Bay Area. To remain competitive in this environment, we must invest increasing amounts in both our housing and salary programs.

Managing these challenges within the constraints of the general funds budget is a daunting task. I am fortunate to have outstanding advice and support from many individuals, starting with the excellent staff of our central budget and capital planning offices. Two dedicated advisory groups also assist in developing the general funds budget and capital plan. The University Budget Group consists of Artie Bienenstock, Patti Gumport, Stephen Hinton, Rosemary Knight, Randy Livingston, Kären Nagy, Channing Robertson, Dana Shelley, Bob Simoni, and Buzz Thompson. The Budget Group is skillfully led by Tim Warner, with Steve Olson providing keen analytical support. The Capital Planning Group consists of Megan Davis, Stephanie Kalfayan, Sandy Louie, Maureen McNichols, Bob Reidy, Craig Tanaka, Bob Tatum, Tim Warner, and Mark Zoback, with Margaret Dyer-Chamberlain ably orchestrating the process. The university owes both groups a debt of gratitude for the many hours they put into the budget and capital planning projects.

In spite of the challenges I have highlighted, I am convinced that Stanford has never been stronger—measured by the knowledge it produces, the education it provides, and the students, faculty and staff it attracts. I have no doubt that as we implement the ambitious strategic initiatives we have set out, Stanford will continue to set the standard among the world's leading research universities.

John W. Etchemendy
Provost
June 2006