STANFORD UNIVERSITY

BUDGET PLAN 2010/11

EXECUTIVE SUMMARY

To The Board of Trustees:

A year has passed since the full brunt of the recession hit Stanford and much of the rest of higher education. The difficult actions we took a year ago have moved Stanford's budget to a new baseline and have positioned us well as we move through this transition year to a period of renewed, though modest, growth. Despite the challenges of the past year, Stanford has maintained its leadership position among the world's great research universities.

This document presents Stanford's 2010/11 Budget Plan for Trustee 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 highlights of the Budget Plan:

- The Consolidated Budget for Operations projects a surplus of $84.5 million on $3.8 billion of revenues, $3.7 billion in expenditures, and $107.4 million in transfers. Revenues are expected to increase by 2.8% over the projected 2009/10 year-end results. This is due principally to a 3.9% growth in tuition income, a 2.6% increase in sponsored research, and a 4.7% increase in health care revenues. Despite a planned 15% decrease in endowment payout, total investment income is expected to be flat, thanks to an increase in income on expendable funds. Expenses are up 4.1% due mainly to the impact of our salary program and a slight increase in other operating expense.
- The Consolidated Budget includes $958.4 million in general funds, of which $152.0 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 transfers and other adjustments, there remains $802.4 million in general funds to be allocated directly by the provost. We anticipate a general funds surplus in the non-formula units of $26.2 million, due to continued tight expense management and prudent allocations of incremental funding.
- This Budget Plan also presents the projected 2010/11 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 $36.6 million surplus.
- The Capital Budget calls for $368.2 million in expenditures in 2010/11. These expenditures are in support of a three-year Capital Plan that, if fully completed, will require approximately $1.5 billion in total project expenditures. Principal expenditures in 2010/11 will be directed toward:
    - The Knight Management Center and associated parking structure
    - The Bing Concert Hall
    - The William Neukom Building in the Law School
    - The East Campus Dining Commons

[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.

- The Bioengineering/Chemical Engineering Building
- The Jill and John Freidenrich Center for Translational Research in the School of Medicine

STRATEGIC CONTEXT

Last year was one of the most challenging financially in Stanford's recent history. After absorbing the largest single-year reduction in the value of the endowment, we moved aggressively to stabilize the budget with several difficult actions:

- We began with a major effort to slow spending during the last fiscal year, 2008/09. Total expense was down by 5% from budget and at the same level as the prior year, 2007/08.
- We reduced the payout from the endowment by 10% in 2009/10 and plan an additional 15% reduction in 2010/11.
- We froze salaries for both faculty and staff for 2009/10.
- Significant budget reductions were implemented with the start of the current fiscal year, 2009/10. The reductions were principally in general funds and in those units with major reliance on endowment income. The cuts resulted in almost 500 layoffs, the freezing of 50 faculty positions, and a suspension of several planned, but not yet started, construction projects.

Our strategy was to realign the budget within a year, and I am pleased to report that we have been successful in doing so, with approximately 98% of the reductions included in the 2009/10 budget and the remainder incorporated into this Budget Plan. All areas of Stanford have pitched in to adjust to a new, lower baseline budget and to find ways to streamline and eliminate unnecessary work. In implementing the cuts we have sought to minimize the impact on students and on our core missions of teaching and research.

By taking the cuts in one year, rather than stretching them out over time, we have put Stanford in a position to begin modest growth in high priority areas. As we have moved through this year of transition and consolidation, we have built the budget for 2010/11 guided by the following priorities:

Endowment Mitigation

By far the largest general funds allocations we have made, both this year and last, are for what we have called "endowment mitigation." This concept deserves some explanation. All of our major academic units rely heavily on endowment payout in their consolidated budgets. Most of this payout is restricted by donor designation to a particular use, but there are obviously important differences in these uses. Some endowment supports valuable but non-core activities, but much of it supports essential university functions—such as faculty salaries, graduate fellowships, and financial aid—that would otherwise have to be supported entirely from general funds. The latter endowment pays for a significant portion of the university's core operations, and so, in normal years, relieves general funds of much of that burden.

Our first budgeting priority has been to marshal general funds to help the schools and other academic units manage the reduction in this "core" endowment payout. We feel that schools that have raised endowment funds to cover core operations, thereby offsetting general funds for other university priorities, should not be penalized when the endowment suffers a drop of the magnitude experienced last year. Consequently, the proposed 2010/11 budget allocates $19.3 million in general funds to mitigate roughly half of the 15% reduction in payout for these core endowment funds. This follows a $20.1 million endowment mitigation allocation in the 2009/10 budget (roughly ¾ of the 10% payout reduction that year), for a total of nearly $40 million over the two budget years. This significantly exceeds any other general funds allocation made during the past two years and is aimed at lessening the blow of the endowment drop on our core academic functions.

Salary Program

After a year with no salary increase, one of our highest priorities was to allocate funds for a modest salary program. Our goal is, first and foremost, to maintain Stanford's competitive position for both faculty and staff, but also to reward loyal employees after two stressful years. The modest salary program will allow us to provide merit increases to deserving employees and to address equity and retention cases that have undoubtedly arisen.

Undergraduate Financial Aid

Last year we made the decision to maintain the very generous undergraduate financial aid program announced in 2008. But the cumulative 25% reduction in endowment payout leaves us with a projected shortfall in the financial aid budget approaching $45 million. We have allocated $10 million in general funds to partially replace this shortfall in endowment income; the remaining shortfall will be covered in 2010/11 with a combination of gifts to The Stanford Fund plus other discretionary funds available to the president. To solve the problem more permanently, we have increased the financial aid target for The Stanford Challenge from $200 million to $300 million and plan to commit an additional $5 million of base general funds out of future budgets. We feel these are both realistic, albeit ambitious, targets.

Graduate Aid

Graduate student support was one of the most urgent needs of the non-professional schools, due mainly to declining endowment revenues, but also reduced general funds and a tight external funding environment caused by tuition caps imposed by the federal research agencies. To partially address this situation, we allocated a total of $5 million in general funds to Earth Sciences, Engineering, and Humanities and Sciences earmarked for graduate aid.

Faculty Support

The budget crisis forced us to freeze roughly 50 faculty positions. One of our highest priorities across the university is to raise additional endowed professorships to re-grow the faculty to full strength. In the meantime, we have been able to provide a small allocation of general funds for new faculty hiring in the non-formula schools.

Facilities

While we delayed or suspended many planned construction projects in response to the budget crisis, our ongoing capital plan remains extremely ambitious. We have several exciting new buildings coming on line in 2010/11, as noted above, and most of these require general funds allocations to support utilities, operations and maintenance, and debt service. We have also been able to reactivate a few projects from those that were temporarily delayed, thanks to generous donor support.

Administrative Effectiveness

An additional priority of this budget cycle has been to look for ways to improve the efficiency and effectiveness of various administrative and support functions of the university. To that end, we have launched several task forces examining major functions that cross unit boundaries. The work of these task forces is still underway and will likely continue into the next academic year. Because they are attempting to address very different situations across the university, some task forces are moving faster than others, as noted in the following descriptions and brief progress reports:

- **Human Resources** – This task force has identified the potential benefits of creating "centers of expertise" to handle certain core human resources (HR) functions that are now being done in a very distributed and sometimes inconsistent fashion. This structure has worked well in other organizations and, if implemented properly, could improve service and be a significant cost saving for Stanford.
- **IT Support** – The IT Task force has concluded that increased efficiencies and cost reductions could be achieved through the centralization of email and calendar services, cellular telephone services, and desktop support. An implementation plan is being developed for further review.
- **Research Administration** – Research administration has been the subject of several recent studies by outside consultants. The Task Force built on those analyses by calling for the acceleration of the Stanford electronic Research Administration System (SeRA), the expansion of training and support for research administrators, and the development of a local cluster to support Stanford's smaller schools. Several changes to our research support structure are now being implemented.
- **Non-Departmental Administrative Support** – Like many research universities, Stanford has an abundance of centers, institutes, and other non-departmental entities. These units, numbering about 400, have a wide array of administrative support structures. The purpose of the task force is to examine those structures with an eye toward identifying potential efficiency gains and best practices. The task force is still in the data collection phase and will develop recommendations in the fall.

Once the task forces conclude their analyses and recommendations, we will move to a broader consultative phase before proceeding with implementation.

CONSOLIDATED BUDGET FOR OPERATIONS

The table on the facing page shows the main revenue and expense line items for 20010/11 and compares those numbers to the projection of actual results for the current year. These figures incorporate the reductions noted above. Some highlights of both income and expense follow.

Revenue

Student Income – This figure is the sum of tuition, room and board income, and is expected to grow by 3.9%. Tuition and fee income is projected to grow 3.8% over the projected 2009/10 actuals as the result of a 3.5% increase in the general undergraduate and graduate tuition rates, and increases between 3.5% and 5.8% in the professional schools. Room and board income is projected to increase 4.3%, mostly due to the 3.6% increase in the undergraduate room and board rate, combined with a projected increase in occupancy and meal plan usage.

Sponsored Research – Total sponsored research is expected to increase by 2.6% over 2009/10 year-end results. After double digit growth in the current year, due mainly to Federal stimulus funding, we are expecting a minimal increase in direct research, a 6.1% increase in research at SLAC National Accelerator Laboratory (SLAC), and a slight reduction in indirect cost recovery.

Health Care Services Income – Revenue from health care services is projected to increase 4.7% in 2010/11, due to increases in the amount paid to the Medical School for physician services by Stanford Hospital and Clinics and Lucile Packard Children's Hospital.

Expendable Gifts – The Office of Development anticipates that revenue from non-capital gifts available for current expenses will grow by 10% to $165 million. While this figure is still down from the $200 million annual total prior to the global economic crisis, it is an encouraging sign for university's financial health. 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—payments made on prior year pledges and prior year gifts released for current use—are expected to be flat at $75 million.

Consolidated Budget for Operations, 2010/11

[in millions of dollars]

2008/09 Actuals	2009/10 Projected Actuals		2010/11 Consolidated Budget	Percent Change
		Revenues		
611.8	654.8	Total Student Income	680.1	3.9%
		Sponsored Research Support:		
532.7	596.6	Direct Costs-University	607.1	1.8%
293.7	325.7	Direct Costs-SLAC	345.7	6.1%
174.1	199.0	Indirect Cost	197.9	-0.6%
1,000.5	1,121.3	Total Sponsored Research Support	1,150.7	2.6%
484.3	495.5	Health Care Services	518.6	4.7%
149.0	150.0	Expendable Gifts In Support of Operations	165.0	10.0%
1,075.4	898.3	Investment Income	904.8	0.7%
350.1	341.9	Special Program Fees and Other Income	348.5	1.9%
74.1	75.0	Net Assets Released from Restrictions	75.0	0.0%
3,745.2	3,736.8	Total Revenues	3,842.7	2.8%
		Expenses		
1,829.5	1,898.8	Salaries and Benefits	1,987.8	4.7%
293.7	325.7	SLAC	345.7	6.1%
210.3	216.2	Financial Aid	217.4	0.6%
1,032.3	1,067.2	Other Operating Expenses	1,099.9	3.1%
3,365.8	3,507.9	Total Expenses	3,650.8	4.1%
379.4	228.9	Operating Results	191.9	
(209.3)	(78.2)	Other Transfers	(107.4)	
	0.0	Transfers to Capital Facilities Fund	0.0	
170.1	150.7	Operating Results after Transfers	84.5	
1,816.8	1,986.9	Beginning Fund Balances	2,137.7	
1,986.9	2,137.7	Ending Fund Balances	2,222.2	

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 be essentially flat in 2010/11. This is due to two factors. First, the payout from the endowment will be down by almost $100 million, due to the net impact of our planned 15% reduction in payout, counteracted somewhat by new endowment principal generated by gifts and internal transfers. That reduction will be offset by a $100 million increase in payout from the EFP. EFP payout is largely determined by the pool's investment returns, which were negative in 2008/09, resulting in virtually no EFP payout in the current year. Normal investment returns in 2009/10 will allow EFP payout to return to normal levels in 2010/11, accounting for most of the increase in other investment income.

Expense

Salaries and Benefits – We anticipate total salaries and benefits expense to increase 4.7% over 2009/10 year-end results. The increase is the result of our salary increase program and a small expected growth in headcount. Fringe benefits expense, excluding SLAC, is expected to increase by 4.9% in 2010/11 to $410.4 million, consistent with the growth in overall salary expense and resulting in little change in the average blended fringe benefits rate.

Financial Aid – The costs for need-based financial aid, athletic aid, and graduate student aid will increase by less than 1%. This is because we expect a slight improvement in the financial circumstances of some of our undergraduate families as the economy improves, combined with an increase in aid for graduate students consistent with planned increases in tuition and slow growth in the graduate student population.

Other Operating Expenses – This line item is the amalgam of operations and maintenance costs, utilities, capital equipment, materials and supplies, travel, library materials, subcontracts, and professional services. We are budgeting a growth of 3.1% for these expenses.

School Initiatives

Despite a year of difficult budget reductions, Stanford's academic and research momentum is accelerating as the schools are beginning to refocus their programmatic plans and look to modest growth initiatives in 2010/11 and the years beyond. Some highlights are:

Graduate School of Business – The GSB cut quickly and deeply last year and has restored its financial equilibrium. As it looks ahead to the opening of the Knight Management Center, it is planning for a modest expansion of faculty and evaluating the potential of new evening programs.

Earth Sciences – The school hopes to restore the momentum behind its transformation to a school focused on all aspects of the study of the Earth. In the coming year Earth Sciences will focus on providing adequate financial aid to graduate students and plans to initiate at least one search in the field of energy and water resources.

Education – The School of Education will continue to expand several new centers, including the Center for the Support of Excellence in Teaching, the Center for Education Policy Analysis, and the Stanford Center for Leadership in Education, all of which were formed as part of the K-12 initiative. In addition, the school will be offering undergraduates the option of minoring in education.

Engineering – The School of Engineering will open two exciting new facilities in the next several months, the Huang Engineering Center and the Center for Nanoscale Science and Engineering in conjunction with Humanities and Sciences (H&S). These facilities will move the school substantially closer to its goal of housing all of its departments in "21st century" facilities. Engineering plans to focus its fundraising efforts on faculty chairs and graduate aid in the coming year.

Humanities and Sciences – H&S hopes to increase faculty hiring over the next two years to its replacement rate. The school also plans to address those departments where faculty salaries are below market and to restore funding for graduate students. H&S has numerous capital projects in the planning or construction phase, including the new Cognitive and Neurobiological Imaging Center in Jordan Hall, which will open in early 2011.

Law – The Law School's growing strength and stature, combined with prudent fiscal management, has produced an opportunity for a faculty recruitment effort that could bring the school to an even higher level of distinction. The William H. Neukom Building, which will be a transformative facility for the Law School, is scheduled for completion in 2010/11.

Medicine – The Medical School will open the Li Ka Shing Center for Learning and Knowledge and the Lokey Stem Cell Research Building in 2010/11. These critical facilities will support education initiatives and research in stem cell and cancer therapies. The school has also received $94 million in federal stimulus funds, which will continue to support the expansion of its research efforts.

GENERAL FUNDS BUDGET

A focal point of the budgeting process is the development of the general funds component of the consolidated budget. The $958 million in general funds can be used for any university purpose and supports most of the core academic and administrative activities of the university. Of the $958 million, $152 million flows to the formula units.

When the trustees approved the 2009/10 Budget Plan in June 2009, we provided a three-year forecast (2009/10–2011/12) for non-formula general funds. That forecast projected a $40 million surplus in 2009/10, a balanced position in 2010/11, and a $15 million deficit in 2011/12. The forecast incorporated the budget reductions and other actions taken to stabilize the budget in 2009/10. It also included, for 2010/11, a modest salary program, funding for new buildings planned to come on-line during the year, and a substantial allocation of general funds for endowment mitigation in the schools.

Since June 2009, our general funds picture for 2010/11 has improved in several areas:

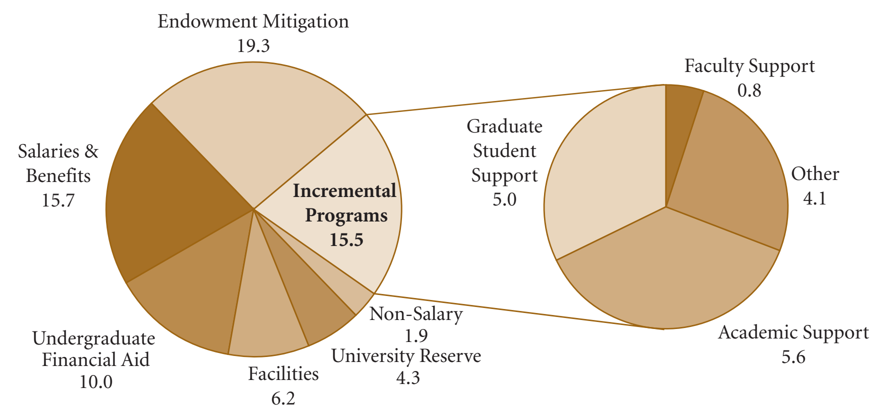
- Our forecast of endowment income has increased by $16 million over last year's forecast as the market has recovered. This is largely the result of a more rapid recovery of the Tier I buffer (which are unrestricted funds functioning as endowment), which in turn results in an increase in unrestricted endowment payout to general funds.
- Other principal sources of revenue, notably tuition and indirect cost recovery, are up by $12 million.
- Additional expense reductions and increases in payments for central services by the formula units have reduced the previously forecasted expense base by $28 million.

This improved general funds picture has had two notable results:

- It has allowed us to make allocations in 2010/11 for high priority items that were not included in our forecast a year ago. Specifically, we have restored $4.3 million to the university reserve; we have allocated $10 million toward undergraduate financial aid; and we have made $15.5 million in selective allocations for incremental program support, primarily in the academic units. The pie chart below reflects these allocations, along with the allocations anticipated a year ago.

2010/11 Incremental General Funds Allocations: $72.9 Million

[In millions of dollars]



- Our non-formula general funds projection for 2010/11 now shows a $26 million surplus. We are also now forecasting a $21 million surplus for 2011/12, rather than a $15 million deficit.

The improvement in our general funds situation is certainly welcome news. In addition to accelerating our immediate recovery, it puts Stanford in a stronger position as we begin the budgeting process for 2011/12 in the fall.

CAPITAL BUDGET AND PLAN

The Capital Budget and three-year Capital Plan are based on a projection of the major capital projects that the university intends to pursue to further its academic mission. The three-year Capital Plan spans 2010/11 to 2012/13; the Capital Budget represents anticipated capital expenditures in the first year of the plan. The three-year plan includes projects that were initiated prior to 2010/11, as well as projects that will commence within the rolling three-year period through 2012/13. The Capital Budget and Capital Plan are subject to change based on funding availability, budget affordability, and evolving university priorities.

In 2010/11, Capital Budget expenditures are expected to total $368.2 million, reflecting a significant reduction in construction activity compared to the current year. The major projects within the 2010/11 Capital Budget include the completion of the Knight Management Center; almost half of the construction of the Bing Concert Hall; the completion of the Neukom Law School Building; the initial work on the Bioengineering/Chemical Engineering Building; the Jill and John Freidenrich Center for Translational Research; and the completion of the East Campus Dining Commons. These structures represent $237 million of the total capital budget for 2010/11.

The three-year Capital Plan includes $1.5 billion in construction and infrastructure projects and programs. This reflects a $300 million decrease from last year's plan. The three-year Capital Plan will be funded from $304 million in current funds, $593 million in gifts, $156 million in auxiliary and service center debt, $367 million in academic debt, and $80 million from other sources. The projects included in the plan can be readily accommodated within the constraints of the General Use Permit, given Santa Clara County's approval of Stanford's Sustainable Development Study in April 2009. When complete, the plan will add $35.5 million in annual debt service and $21.5 million in incremental operations and maintenance (O&M) costs to the Consolidated Budget.

THE UNIVERSITY BUDGET: A TWO-YEAR PERSPECTIVE

The university's budget is a many-splendored thing. It represents the complex interplay of a host of revenue streams carrying a multiplicity of restrictions, funding a variety of units pursuing an array of related, yet distinct missions. This can make it hard, particularly in a financially turbulent period, to see the global impact of changes to individual revenue streams.

When we step back and look at the changes in the Consolidated Budget during the two years from 2008/09 to 2010/11, we see that the university's overall revenue is projected to grow by 2.6%. Although this two-year revenue growth does not keep up with local or national rates of inflation—and falls well short of the university's projected expense growth—it hardly explains the need for the difficult and painful budget reductions that the university has undergone. How is this picture consistent with the severe budget shortfalls most of our units have had to adjust to? Where is the new "lower baseline" that we have achieved after so much effort?

To appreciate the impact of the past two years, we have to segregate the major revenue streams in the Consolidated Budget by primary control points. For our purposes, the relevant

Two-Year Change in Consolidated Budget Revenue

[in millions of dollars]

	2008/09	2010/11	Two-Year % Change
Controlled by Provost/Deans			
Tuition	501.7	554.4	10.5%
Indirect Cost Recovery	174.1	197.9	13.7%
Special Program Fees	350.1	348.5	-0.5%
Investment Income	1,075.4	904.8	-15.9%
Subtotal	2,101.3	2,005.6	-4.6%
Controlled by Department/Faculty/ Other Units			
Room & Board	110.1	120.5	14.2%
Direct Research, University	532.7	607.1	14.0%
Direct Research, SLAC	293.7	345.7	17.7%
Health Care Services	484.3	518.6	7.1%
Gifts/Net Assets	223.1	240.0	7.6%
Subtotal	1,643.9	1,837.1	11.8%
Total Consolidated Revenue	**3,745.2**	**3,842.7**	**2.6%**

distinction is between those revenue streams controlled primarily by the provost and school deans, on the one hand, and those controlled by individual faculty and departments, or restricted to other units such as SLAC. The reason this is a crucial distinction is that most faculty and administrative salaries are paid out of the former budgets—where cuts had to be made—while the latter revenue streams cannot, in general, be tapped to make up for those shortfalls.

The result of this grouping of revenue streams is shown in the table above. It shows that the revenue sources primarily dedicated to specific departments, faculty, and restricted programs have increased over this two-year period by nearly 12%. By contrast, the less restricted funds that are controlled centrally and used to support the basic operating costs of the university have decreased by nearly 5% over the two-year period. When inflation is taken into account, the real decline in these revenue sources is closer to 10%. The budget cuts taken last year are commensurate with this decrease.

A similar segregation on the expense side of the budget would show a similar divergence, though this obviously cannot be captured at the high level of generality represented by expense lines in the Consolidated Budget. Suffice it to say that changes in expenses track fairly closely the aforementioned shifts in revenue streams. For example, the headcount of administrative staff supported centrally or at the school level has declined significantly, and this is reflected in the salary expenses supported centrally in those units. But at the consolidated level, this expense decrease is more than offset by, for example, new hires supported by the 14% increase in sponsored research revenue since 2008/09.

It is important to remember that these shifts are not simply shifts in fungible dollars supporting an otherwise unchanged operation. When a staff member must be laid off in, say, the Office of Development or the libraries, the turmoil caused and adjustment required in those units is not lessened when a research scientist is hired on a new grant received, say, in Medicine or Engineering. Just as it is not possible (indeed, not legal) for the latter dollars to be used to support the former individuals, it is also not possible, in general, for those individuals to qualify for jobs opened up by the new dollars.

This is the paradox of university budgeting. The university can undergo a wrenching readjustment not caused by an overall decline in revenue, but rather by the torquing effect of offsetting changes in distinct revenue streams. We are a different university as a result of those changes as surely as we would have been had endowment increased while sponsored research declined.

The most important point to bear in mind, however, is that Stanford's overall financial situation remains extremely strong. We have quickly emerged from a difficult period of adjustment, and I am confident that we have emerged with few if any bruises to our core academic strengths.

ACKNOWLEDGEMENTS

Developing this year's budget plan has been far easier than last year's. That said, even in the best of years, the budget plan is the product of a great deal of work on the part of managers and budget officers at every level of the university. I would like to begin by acknowledging both the budget officers and leadership in the schools and administrative units for the uniformly realistic and modest budget proposals they brought forward to the University Budget Group. After a year of significant budget reductions, there is a natural inclination to look for ways to reverse or mitigate those reductions. This is not what we saw in any of the proposals. The proposals were thoughtful and restrained, requesting assistance only for the most pressing priorities.

As always, I am incredibly grateful to the two hard-working advisory groups that assist me in formulating the general funds budget and capital plan. The University Budget Group consists of Margaret Brandeau, Adam Daniel, Harry Elam, Patti Gumport, Neil Hamilton, Rosemary Knight, Randy Livingston, Maureen McNichols, Dana Shelley, Bob Simoni, Buzz Thompson, and Tim Warner. The budget process is kept on track by Tim, Dana and Neil, who deserve special recognition. The Capital Planning Group consists of Jack Cleary, Megan Davis, Stephanie Kalfayan, Bob Reidy, Suzanne Sangervasi, Craig Tanaka, Bob Tatum, and Tim Warner. Craig and Suzanne guide the capital planning process in a masterfully efficient way. Creed Raftery ably coordinated the production of this document.

This year, in addition to the budget process, we prevailed on many faculty and staff to participate on one or more of the task forces. Megan Davis took on the burden of staffing several of the task forces. I would also like to thank the following individuals for their willingness to participate on the four task forces: IT Task Force: Neil Hamilton, Rosemary Knight, and Randy Livingston; HR Task Force: Linda Faris, Maureen McNichols, Steve Olson, Diane Peck, Kathryn Shaw, Brian Talbott, Buzz Thompson, and Tim Warner; Research Administration Task Force: Ann Arvin, Sara Bible, Margaret Brandeau, Russell Brewer, Barbara Cole, Harry Greenberg, Anne Hannigan, Randy Livingston, Bill Madia, Mich Pane, Bettye Price, Tim Reuter, Dana Shelley, Bob Simoni, and Kathleen Thompson ; Non-Departmental Administrative Support Task Force: Sara Bible, Adam Daniel, Harry Elam, Patti Gumport, Andrew Harker, Dana Shelley, and Tim Warner.

REQUESTED APPROVAL AND ORGANIZATION OF THIS DOCUMENT

The Budget Plan provides a university-level perspective on Stanford's programmatic and financial plans for 2010/11. We seek approval of the planning directions, the principal assumptions, and the high-level supporting budgets contained herein. As the year unfolds, we will provide 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 contains four chapters and two appendices. Following the overview of budgeting at Stanford, Chapter 1 describes the financial elements of the plan, including details of the Consolidated Budget for Operations and the projected Statement of Activities for 2010/11. Chapter 2 addresses program issues in the academic areas of the university. Chapter 3 provides a similar view of the administrative and auxiliary units. Chapter 4 contains details on the Capital Budget for 2010/11 and the Capital Plan for 2010/11–2012/13. The appendices include budgets for the major academic units and supplementary financial information.

John W. Etchemendy
Provost
June 2010

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INTRODUCTION: BUDGETING AT STANFORD

Budgeting at Stanford is a continuous process that takes place throughout the year and occurs at nearly every level within the university. The cycle starts with planning that considers programmatic needs and initiatives, continues with the establishment of cost drivers such as the approved salary program and fringe benefits rates, and is tempered by available funding sources. Stanford's "budget" is an amalgamation of thousands of smaller budgets, including everything from an individual faculty member's budget for a sponsored grant from the National Institutes of Health, to the budget for the Department of Psychology, to the budget for the School of Engineering, to the total of the Consolidated Budget for Operations. These budgets are created and managed by the areas that are governed by them, with oversight by the provost, the chief budget officer of the university. There are general principles and guidelines to which the budgets must adhere, but schools and other units are allowed tremendous freedom in the development and execution of their budgets.

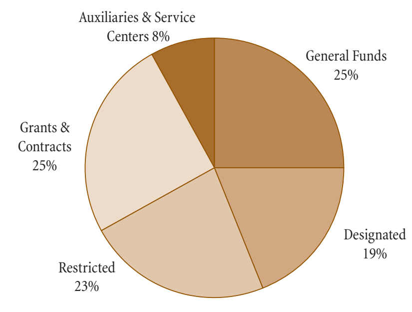
Fund Accounting

Stanford's budgets are developed and managed according to the principles of fund accounting. Revenue is segregated into a variety of fund types, and the use of the revenue is governed by the restrictions of the fund. For example, each expendable gift is put into an individual fund, and the recipient must use the funds in accordance with the wishes of the donor. Gifts of endowment are also put into separate funds, but the corpus itself is not usually spent. An annual payout on the endowment fund is spent, and as with gift funds, only in accordance with the restrictions imposed by the donor. The segregation of each gift allows the university to ensure that the funds are spent appropriately and to report to donors on the activities that their funds support. Monies received from government agencies, foundations, or other outside sponsors are also deposited in separate, individual funds to ensure strict adherence to the terms of the grants and/or contracts that govern the use of the funds. Non-gift and non-sponsored research revenue also reside in funds, but this type of revenue may be commingled in a single fund. Often, however, departments may choose to combine unrestricted monies into separate funds for a particular program, for a capital project, or to create a reserve. Stanford's consolidated revenues by fund type are shown below.

Budget Management

So how does Stanford budget and manage its roughly 15,000 expendable funds (with balances) and 7,000 endowment funds? It goes without saying that the university uses a sophisticated financial accounting system to set up the individual funds, to record each financial transaction, and to track fund balances. But nearly all of the decision-making for the use of Stanford's funds is made at the local level, consistent with the decentralized and entrepreneurial spirit of the university. Unlike a corporation, Stanford is closer to a collection of disparate, autonomous businesses with widely varying cost structures and resources. As such, each principal investigator is accountable for the responsible use of his/her grant funding, each gift recipient must ensure that the gift funds are used in accord with the donor's wishes, and each school must fulfill the expectations for teaching and scholarship within its available resources.

2010/11 Consolidated Revenues by Fund Type



Budget Control

The primary control on local unit budgets at Stanford is available funding. Except for general oversight and policies governing the appropriate and prudent use of university funds, the central administration does not place additional limits on spending. For example, if a faculty member needs to hire a postdoctoral fellow to help carry out a particular research project, and if grant funding is secured to cover this expense, the university does not second-guess this decision. Conversely, two aspects of central budget control are faculty billets and space charges.

Because the majority of Stanford's funding is under the direct control of a faculty member, a department, or a school, these entities are able to support programs as long as they maintain a positive fund balance. This, however, does not mean that the programs must operate with a surplus during any particular fiscal year. In fact, a "deficit" is usually reflective of a planned use of prior year fund balances. A simple example of this is when a department receives a gift of $5.0 million to be spent over five years. If the funds are spent evenly over the time period, the program will show a surplus of $4.0 million in the first year and will generate an ending fund balance of $4.0 million. In each of the next four years, this program will receive no revenue, will expend $1.0 million dollars, and will thus generate an annual deficit of $1.0 million while drawing down the fund balance of the gift.

The Consolidated Budget for Operations, the aggregate of all of Stanford's smaller budgets, is therefore not centrally managed in the corporate sense. Nonetheless, a great deal of planning goes into the development of the individual unit budgets that aggregate into the Consolidated Budget of the university.

Development of the Consolidated Budget & the Role of General Funds

The concepts of fund accounting and restricted funds were explained above. Another key element in the development of the units' budgets and the Consolidated Budget are university general funds, which are funds that can be used for any university purpose. General funds play a particularly important role in the overall budget, because they cover many expenses for which it is difficult to raise restricted funds, such as administration and campus maintenance. The main sources of general funds are tuition income, indirect cost recovery, unrestricted endowment income, and income from the expendable funds pool.

Each school and administrative unit receives general funds in support of both academic and administrative functions. The process for allocating general funds is controlled by the provost and aided by the Budget Group, which includes representation from both faculty and administration. The critical elements of the process are a forecast of available general funds, a thorough review of each unit's programmatic plans and available local funding, and an assessment of central university obligations such as building maintenance and debt service. Balancing the needs and the resources is the ultimate goal of the Budget Group. The general funds allocation process is described in more depth in Chapter 1.