STANFORD UNIVERSITY

BUDGET PLAN 2012/13

EXECUTIVE SUMMARY

To The Board of Trustees:

Stanford moves into 2012/13 in a very strong financial position. While we have not quite returned to the heights of 2007/08, the past two years of solid investment returns, the success of the Stanford Challenge, and a highly competitive research program have put us in an enviable position among our leading research university peers. This Budget Plan builds on our renewed strength by making some strategic investments in programs and enhancing support for the Stanford faculty. We have been cautious in allocating incremental resources in order to maintain surpluses for the foreseeable future in the Consolidated Budget and its General Funds component. The projected surpluses will provide flexibility for future programmatic initiatives, as well as a cushion for unforeseen financial downturns.

This document presents Stanford's 2012/13 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. The budgets for the Stanford Hospital and Clinics and the Lucile Packard Children's Hospital, both separate corporations, are not included in this Budget Plan, although they are included in the university's annual financial report.

Some highlights of the Budget Plan:

- The Consolidated Budget for Operations projects a surplus of $219.6 million on $4.4 billion of revenues, $4.1 billion in expenditures, and $127.5 million in transfers. Revenues are expected to increase by 4.1% over the projected 2011/12 year-end results. This is principally due to a 7.0% growth in investment income and a 4.6% increase in health care services, partly offset by just a 2.5% increase in sponsored research. Expenses are up 4.2% due mainly to the impact of a 4.6% increase in total compensation and a modest increase in other operating expenses.
- The Consolidated Budget includes $1.1 billion in general funds, of which $176.7 million flows to the Graduate School of Business (GSB), the School of Medicine, and the Continuing Studies and Summer Session Programs in accordance with previously agreed upon formulas. We anticipate a general funds surplus of $43.1 million, due to tight expense management and cautious allocations of incremental funding.
- This Budget Plan also presents the projected 2012/13 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 $151.9 million surplus.
- The Capital Budget calls for $529.5 million in expenditures in 2012/13. These expenditures are in support of a three-year Capital Plan that, when fully completed, will require approximately $2.1 billion in total project expenditures. Principal expenditures in 2012/13 will be directed toward:
  - Substantial work on the Stanford Energy System Innovations (SESI) project
  - The repurposing of the GSB South building as the replacement for Meyer Library
  - Continued progress on the Bioengineering/Chemical Engineering building
  - Preliminary work on the Stanford Research Computing Facility

STRATEGIC CONTEXT

Stanford is poised to make strategic investments over the next several years, having fully adjusted to the effects of the recession. Our improved financial position is due to several factors:

- After the sharp decline in the endowment in 2008/09, Stanford responded with a significant budget reduction program that stabilized the university's finances.
- As the market has strengthened, endowment payout has returned to more normal growth rates. We have also seen strong growth in returns from the Stanford Research Park.
- While we have made selective programmatic investments over the past year, we have avoided adding back expenses that were cut in 2009/10 and 2010/11.
- The successful completion of the Stanford Challenge has further enhanced our academic and research programs, student support, and facilities.

Although our finances are solid, we have been cautious in developing the budget for next year. The rate of recovery of the national economy is still slow, signaling that we must be careful anticipating continued strong endowment returns. Moreover, the federal budget situation will remain under pressure for the foreseeable future, prompting us to be guarded in our projection of government research funding.

As a result, we adopted several operating principles in establishing our budget allocations:

1) strengthen the competitive salary position for faculty and staff;
2) provide a continuing base of general funds support for the generous undergraduate financial aid program;
3) attempt to support the highest priority requests from the schools and principal administrative units;
4) maintain an on-going general funds surplus to provide capacity for potential future program growth.

The specifics are:

Salary Program

A central component of the budget process this year was an extensive review of our competitive salary position. As a result of that review, we discovered several areas, particularly among the faculty, where our salaries were not as competitive as we would like. Consequently, we have made supplemental allocations beyond the regular merit salary program to address these shortfalls.

Undergraduate Financial Aid

Stanford is proud to support one of the most generous undergraduate financial aid programs in the country. The Stanford resources directed to undergraduate need-based scholarships have increased from $75.2 million in 2007/08, before the recession and before substantial enhancements to the program, to $130.2 million budgeted for 2012/13. We have funded this growth through increases in restricted funds, support from presidential funds and general funds. In addition, we are making good progress toward realizing the goal of $300 million in new endowments supporting undergraduate scholarship set during the Stanford Challenge. For 2012/13 we will add another $11.8 million in base general funds to support financial aid. These funds will be used to maintain the aid program in light of the tuition and room and board increases, and they will replace $10 million in president's funds currently supporting the program. Our plan is to continue to increase general funds and restricted funds for student aid in order to eliminate the remaining $10.7 million in presidential funds by 2017.

Academic Support

An important theme in this year's budget process was adding funds to support academic programs. The most significant allocation was an incremental $1 million added to the Library Materials Budget. This is a 6.8% increase above inflation, and will allow some of the purchasing power lost during the recession to be restored. Funding was also provided for the second of three incremental faculty positions in Geobiology, an emerging field in the School of Earth Sciences. In addition, we allocated funds to several independent laboratories to help them meet their growing administrative and compliance needs.

Responding to the Recommendations of the Study of Undergraduate Education at Stanford (SUES)

With the completion of SUES, the university is turning its attention to the implementation and resource requirements of the recommendations. The SUES plans are far reaching and will take time to implement. As a result, their budget impacts will be absorbed over several years. For 2012/13 the elimination of the Introduction to the Humanities program will allow funds to be redirected to the new Thinking Matters courses. Over the course of the next academic year incremental operating and capital requirements will be assessed and a longer-term plan developed. Further discussion of SUES may be found on page 41.

Facilities

We have made great progress in recent years in enhancing Stanford's teaching and research facilities. While our progress slowed slightly during the economic downturn, we have maintained an ambitious capital plan. Several exciting new buildings will come online in 2012/13, notably the Bing Concert Hall and a west campus recreation facility. These structures will require general funds allocations to support utilities, operations and maintenance, and debt service, funding for which has been included in the Budget Plan.

Rebuilding Reserves

Stanford has three principal categories of financial reserves:

Expendable reserves – We project Stanford's expendable reserves will stand at $2.7 billion at the end of 2012/13. Of that amount, $1.2 billion is a combination of restricted expendable funds or unspent restricted endowment payout. These monies are spread widely across the university and are largely controlled by individual faculty members, departments, programs, or deans. The remaining $1.5 billion is held principally in designated funds, which are not legally restricted but are managed at the local school and department level in accordance with various university policies.

Tier I Buffer – We project the Tier I Buffer will stand at $846 million by the end of 2012/13. The buffer's funds are generated by the investment returns on our expendable reserves. The money is invested as funds functioning as endowment, the payout from which supports the general funds component of the Consolidated Budget. In 2006/07, prior to the recession, the Tier I Buffer stood as high as $820 million. The Tier I Buffer acts as a backstop to maintain the value of those expendable funds invested in the merged pool. It is testimony to Stanford's financial strength that the Tier I Buffer is now above its pre-recession levels.

Tier II Buffer – Our estimate of the Tier II Buffer is $845 million by the end of 2012/13. Like the Tier I Buffer this fund is invested as funds functioning as endowment, the payout from which is used at the discretion of the president. The highest value of the Tier II Buffer was $1.1 billion in 2006/07.

The Stanford Challenge and The University's Budget

In December, Stanford completed the largest fund raising campaign in the history of higher education. The success of the five-year $6.2 billion Stanford Challenge places our university on an even higher trajectory.

As we celebrate the Stanford Challenge, it is important to recognize how the campaign will affect the university's budget. Some of the major accomplishments of the campaign have a direct bearing on this Budget Plan — and future budgets:

- **Undergraduate financial aid –** When Stanford made important enhancements in its financial aid program in 2008, the campaign target for financial aid was increased from $200 million to $300 million. The endowment support has been essential to maintaining our need-based aid policy, and it has helped markedly in limiting the amount of general funds in supporting financial aid.
- **Graduate fellowships –** The Stanford Challenge raised 366 new endowed fellowships, including 53 Stanford Interdisciplinary Graduate Fellowships. In a period of scarce federal funding for research and graduate student support, these funds are critical for advancing our graduate education programs. Without the success of the campaign, the Stanford budget would be under considerable strain to support graduate students, and potentially at risk of having to reduce our numbers.
- **Professorships –** The Stanford Challenge raised funding for 139 new faculty positions, directorships, and senior fellows. From a budgeting perspective this has two effects. First, for those new endowed professorships supporting an existing faculty position, general funds will be released and directed to other priorities or made available for future use. Second, the endowments supporting incremental positions will help to expand Stanford's programmatic reach.
- **Facilities –** Facilities were a central and very visible part of the transformations brought about by the Stanford Challenge. In all, 38 buildings were constructed or renovated during the campaign. Capital contributions relieve the university budget of debt service. Typically, however, the operations, maintenance, and utilities on a new building are supported by the university's general funds budget. We are fortunate that the budget has been able to absorb these costs.

The accomplishments of the Stanford Challenge significantly strengthen the university's financial base and position us to play a central role in addressing global problems and educating tomorrow's leaders. Many elements of the campaign are reflected in the budget as we plan for the expansion of programs and research across the university. Also, by placing permanent funding under existing programs, the campaign has increased our flexibility and capacity to make further strategic investments in the coming years. So in that sense, the Stanford Challenge is not only transforming the university today, but it is also laying the groundwork for future growth and effectiveness.

CONSOLIDATED BUDGET FOR OPERATIONS, 2012/13

[IN MILLIONS OF DOLLARS]

2010/11 ACTUALS	2011/12 BUDGET JUNE 2011	2011/12 PROJECTED ACTUALS		2012/13 CONSOLIDATED BUDGET	CHANGE FROM PROJECTED ACTUALS
			Revenues		
688	722	721	Total Student Income	745	3.4%
650	650	657	Direct Costs-University	667	1.6%
366	346	357	Direct Costs-SLAC	378	5.9%
225	217	227	Indirect Cost	227	0.0%
1,242	1,213	1,241	Total Sponsored Research Support	1,272	2.5%
559	549	573	Health Care Services	599	4.6%
164	205	200	Gifts In Support of Operations	200	0.0%
106	80	105	Net Assets Released from Restrictions	110	4.8%
935	987	1,016	Investment Income	1,087	7.0%
381	374	415	Special Program Fees and Other Income	430	3.5%
4,075	**4,131**	**4,270**	**Total Revenues**	**4,443**	**4.1%**
			Expenses		
2,205	2,292	2,332	Total Compensation	2,439	4.6%
230	240	242	Financial Aid	250	3.4%
159	165	156	Debt Service	168	7.7%
1,140	1,128	1,202	Other Operating Expenses	1,239	3.1%
3,734	**3,824**	**3,932**	**Total Expenses**	**4,096**	**4.2%**
341	**307**	**338**	**Operating Results**	**347**	
(158)	(104)	(126)	Transfers	(128)	
183	**203**	**212**	**Operating Results after Transfers**	**220**	
2,122	2,153	2,305	Beginning Fund Balances	2,517	
2,305	2,356	2,517	Ending Fund Balances	2,736	

CONSOLIDATED BUDGET FOR OPERATIONS

The table above shows the main revenue and expense line items for 2012/13 and compares those numbers to our current projection of final results for 2011/12. Some highlights of both income and expense follow.

Revenue

Student Income – This figure is the sum of tuition and room and board income and is expected to grow by 3.4%. Tuition income is projected to grow 3.5% over the projected 2011/12 actuals as the result of a 3.0% increase in the general undergraduate and graduate tuition rates and a slight growth in the number of students. Room and board income is projected to increase 3.0%.

Sponsored Research – Total sponsored research (including SLAC) is expected to increase by 2.5% over 2011/12 year-end results. Direct research, exclusive of SLAC, is projected to grow at 1.6%. SLAC expects to grow by 5.9%, due to increased funding for the Linac Coherent Light Source II facility.

Health Care Services Income – Revenue from health care services is projected to increase 4.6% in 2012/13. This revenue consists principally of payments from the hospitals to the Medical School for faculty physician services, which are expected to grow at 5%. This is offset by slower growth in the blood center, as that facility works to remain competitive in light of increased consolidation in the regional blood product market.

Expendable Gifts – The Office of Development anticipates that 2011/12 will be the largest fundraising year in Stanford's history as the Stanford Challenge concludes. Consequently, we kept our estimate of expendable gifts for 2012/13 flat at $200.0 million. This figure does not include gifts to endowment or gifts 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 increase by 4.8%.

Investment Income – This category consists of income paid out to operations from the endowment ($925.5 million) and from other investment income ($161.6 million), the majority of which is payout from the expendable funds pool (EFP). Overall, investment income is expected to be up by 7.0% in 2012/13. Endowment income is projected to increase by 7.3%, based on our long-term assumption of 10% for total endowment return and our forecast of $352 million in new gifts and additions to endowment. Payout from the EFP is governed by university policy specifying that the payout will be 5.5% if the prior year's return is greater than 5.5%, which is currently the case.

Expense

Salaries and Benefits – We anticipate total compensation to increase 4.6% over 2011/12 year-end results. The increase is the result of our salary increase program, some growth in headcount, and supplemental salary allocations for enhancing our market position for selected faculty and staff groups, as noted above. Fringe benefits expense is expected to increase by 4.4%. The cost of health insurance, on a per capita basis, is expected to increase by about 7%.

Financial Aid – The costs for need-based financial aid, athletic aid, and graduate student aid will increase by 3.4%. This increase allows Stanford to maintain its generous need-based aid program for undergraduates, consistent with our tuition increase. It also reflects the assumption of a slight improvement in the financial circumstances of some of our families on need-based aid.

Other Operating Expenses – This line item is the amalgam of graduate stipends, operations and maintenance costs, utilities, capital equipment, materials and supplies, travel, library materials, subcontracts, and professional services. We are budgeting growth of 3.1% for these expenses, in line with anticipated inflation and internal cost control measures.

School Initiatives

Stanford's principal academic organizations, the seven schools, are advancing their research and teaching agendas and will continue to accelerate progress in 2012/13. A few highlights of their plans are:

Graduate School of Business – Having completed the move to the new Knight Management Center, the school will turn its sights to faculty growth and to the expansion of the Stanford Institute for Innovation in Developing Economies (SEED). The GSB intends to expand its 110 member faculty by ten over the next few years. The SEED program is the largest of several initiatives designed to build upon the school's global presence.

Earth Sciences – In addition to expanding its Geobiology program, as noted above, Earth Sciences will enhance its high performance computing capabilities. In 2012/13 the school will be launching a new master's degree in computational environmental science in partnership with Stanford's Institute for Computational and Mathematical Engineering.

Education – The school is developing a comprehensive strategic plan under first year Dean Claude Steele. New directions will likely include an increase in collaborative research with educational practitioners, as well as an international expansion of Stanford's highly successful teacher preparation program.

Engineering – As a result of strong fundraising, the school has restored funding under those faculty positions cut during the recession. Engineering will be hiring three to five new faculty annually in the coming years. In addition, the school continues to reinvent its online learning programs, with thousands of students expressing interest in one or more courses.

Humanities and Sciences – The school's financial position has strengthened, despite the recession. Humanities and Sciences now has 529 faculty, the largest number in its history. The budget for 2012/13 will focus on bringing salaries to levels consistent with top-ranked competitors. Rationalizing and increasing graduate student support continues to be a high priority.

Law – Maintaining a competitive faculty salary program, as well as a strong student financial aid program, are the top priorities for the Law School. Progress continues on both fronts with the recruitment of several important new legal scholars and the announcement of an ambitious $20 million endowment campaign for financial aid.

Medicine – Although federal sponsored research funding has slowed, the Medical School continues to develop its five interdisciplinary Stanford Institutes of Medicine, as well as three strategic centers. The impacts of healthcare reform will also put pressure on revenues. Nevertheless, strong growth in clinical activity will help to drive a positive bottom line for 2012/13.

GENERAL FUNDS BUDGET

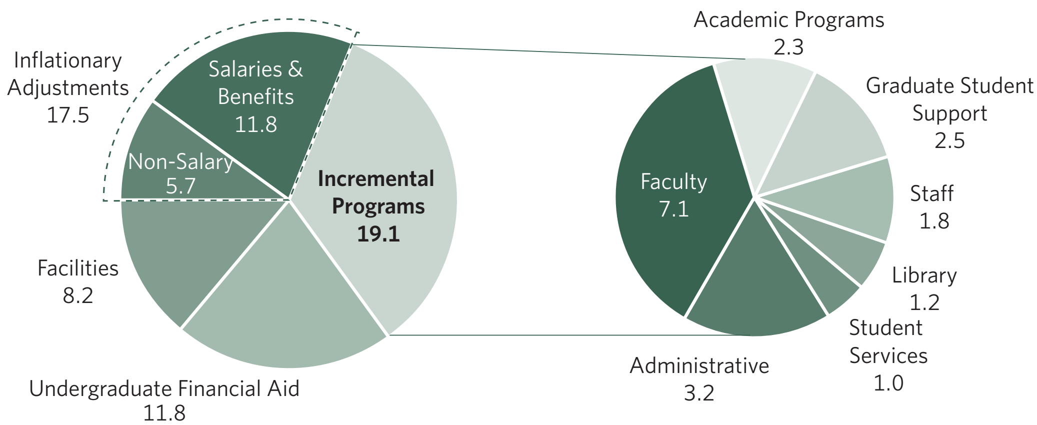
A focal point of the budgeting process is the development of the general funds component of the Consolidated Budget. The $1.1 billion in general funds can be used for any university purpose and supports many of the core academic and support functions of the university.

A year ago we forecasted a general funds surplus for 2012/13 of $43.1 million. This forecast included a salary increase program and funding for new buildings planned to come online during the year. During the year the outlook has improved for several reasons: the endowment has performed better than expected; rental income has improved; the expendable funds pool, from which general funds receives a payout, has increased beyond our projection; health insurance costs increased more slowly than anticipated; utility costs came in below budget; and debt service has been lower due to continued low interest rates. These improvements have allowed us to allocate an additional $11.8 million to the undergraduate financial aid budget, thereby relieving half of the contribution from the Tier II Buffer. It has also allowed for the allocation of $19.1 million in incremental program support to both the academic and administrative units, while still leaving a planned surplus. Some examples of incremental program support follow:

- Academic Programs: Enhancements to the Library Materials Budget; permanent funding for the master's program in Public Policy; an Academic Technology Specialist for the History department.
- Administrative: Increased administrative support for several independent labs; expansion of outreach capacity in the Development Office; support for the Alumni Association in light of reduced external revenues.
- Faculty: Additional funding to strengthen Stanford's competitive faculty salary position; the second of three years of funding for new Geobiology faculty positions in Earth Sciences; three half billets for the Institute for Computational and Mathematical Engineering.

2012/13 INCREMENTAL GENERAL FUNDS ALLOCATIONS: $56.6 MILLION

[IN MILLIONS OF DOLLARS]



- Student Services: Additional staffing in Vaden Health Center; additional personnel in Admissions to support increased application review; additional academic directors in the office of the Vice Provost for Undergraduate Education.

The pie chart above reflects all of the incremental allocations.

As Stanford has emerged from the recession we have tried to budget a surplus in general funds to protect the university against potential future downturns and to provide the capacity to respond to future opportunities. After making the incremental program allocations described above, we still anticipate a $43.1 million surplus in 2012/13 and forecast comparable surpluses for each of the following two years.

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 2012/13 to 2014/15; 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 2012/13, as well as projects that will commence within the rolling three-year period through 2014/15. The Capital Budget and Capital Plan are subject to change based on funding availability, budget affordability, and evolving university priorities.

In 2012/13, capital budget expenditures are expected to total $529.5 million. The major projects within the 2012/13 Capital Budget include continued work on the Bioengineering/Chemical Engineering building; substantial work on the Stanford Energy System Innovations (SESI); the McMurtry Building; and the repurposing of the GSB South building. The work on these structures represents approximately half of the total capital budget for 2012/13.

The three-year Capital Plan includes $2.1 billion in construction and infrastructure projects and programs. The three-year Capital Plan will be funded from $501.0 million in current funds, $695.0 million in gifts, $697.0 million in auxiliary and service center debt, $222.0 million in academic debt, and $19.0 million from other sources yet to be identified. 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 $54.3 million in annual debt service and $45.1 million in incremental operations and maintenance costs to the Consolidated Budget.

ACKNOWLEDGEMENTS

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 the budget officers and leadership in the schools and administrative units for their efforts in support of the budget process. I am particularly grateful to the leadership of the schools for making a concerted effort to fund new initiatives first out of restricted, school-controlled funds, and only secondarily asking for general funds supplementation when these funds fall short.

As always, I am incredibly grateful to the two hardworking 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, Andrea Goldsmith, Patti Gumport, Neil Hamilton, Rosemary Knight, Randy Livingston, Maureen McNichols, Dana Shelley, Bob Simoni, Buzz Thompson, and Tim Warner. Tim, Dana, and Neil keep the budget process on track, and deserve special recognition, as do the other members of the budget office, including Betsy Lewis, Creed Raftery, Serena Rao, and Andrew Harker, for the parts they play in producing the budget, creating this document, and carrying out the final decisions.

The Capital Planning Group consists of Jack Cleary, Megan Davis, Stephanie Kalfayan, Bob Reidy, Craig Tanaka, Bob Tatum, and Tim Warner. Craig guides the capital planning process in a masterfully efficient way, Megan keeps track of all things financial and oversees the final write-up, and of course Bob and Jack see to it that the plan becomes reality.

REQUESTED APPROVAL AND ORGANIZATION OF THIS DOCUMENT

The budget plan provides a university-level perspective on Stanford's programmatic and financial plans for 2012/13. 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 2012/13. Chapter 2 addresses program directions 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 2012/13 and the Capital Plan for 2012/13–2014/15. The appendices include budgets for the major academic units and supplementary financial information.

John W. Etchemendy
Provost
June 2012

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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.

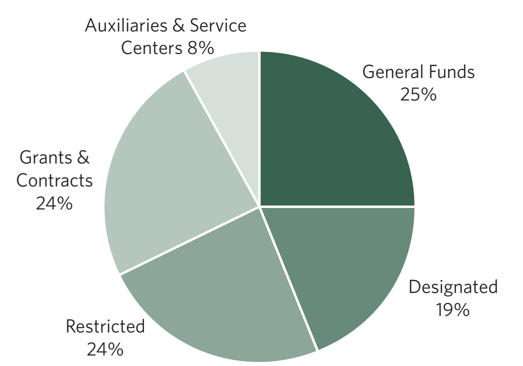
Fund Accounting

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 at the right.

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

2012/13 CONSOLIDATED REVENUES BY FUND TYPE



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. Schedule 21 in Appendix B shows under whose control these fund balances lie.

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

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.