

2011/12 Stanford University Budget Plan

Faculty Senate
May 26, 2011

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Statements in this presentation that are not historical facts are forward-looking statements based on current expectations of future events and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In addition, we, through our management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. All of these forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those we expected. We therefore caution against placing substantial reliance on the forward-looking statements contained in this presentation. **All forward-looking statements included in this presentation are made only as of the date of this presentation** and we assume no obligation to update any written or oral forward-looking statements made by us or on our behalf as a result of new information, future events or other factors.

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Thanks

University Budget Group

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Buzz Thompson, *Law*
Tim Warner, *Budget Office*

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Tim Warner, *Budget Office*

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Outline

- Consolidated Budget
- General Funds Budget
- Lessons Learned
- Research Outlook

Consolidated Budget for Operations

Consolidated Budget

2009-10 Actuals	2010-11 Projected		2011-12 Budget Plan	1-Year Change	2-Year Change
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Dollars in millions

5

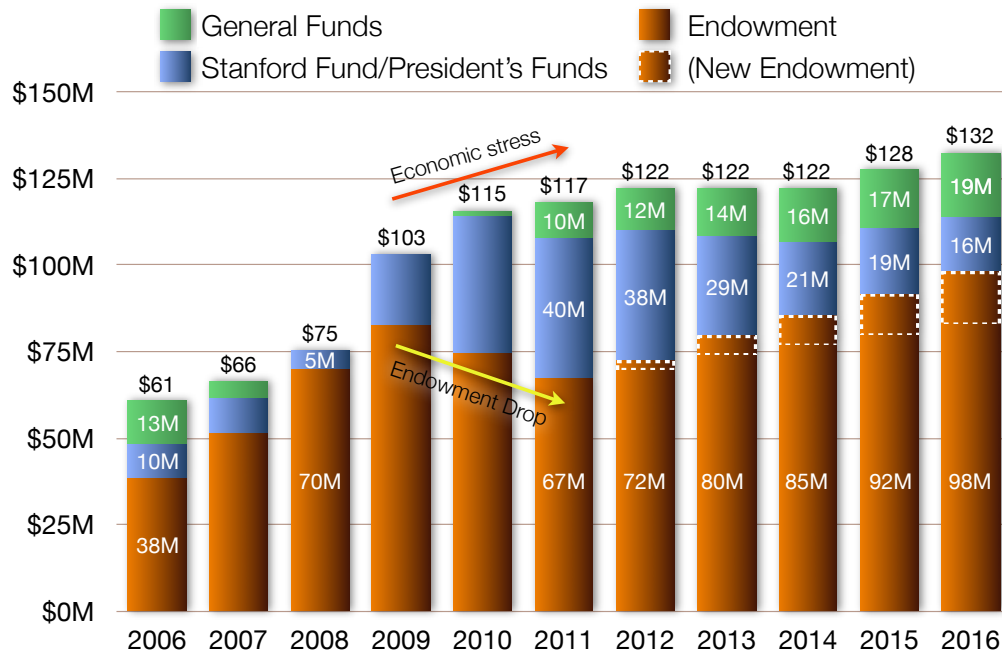
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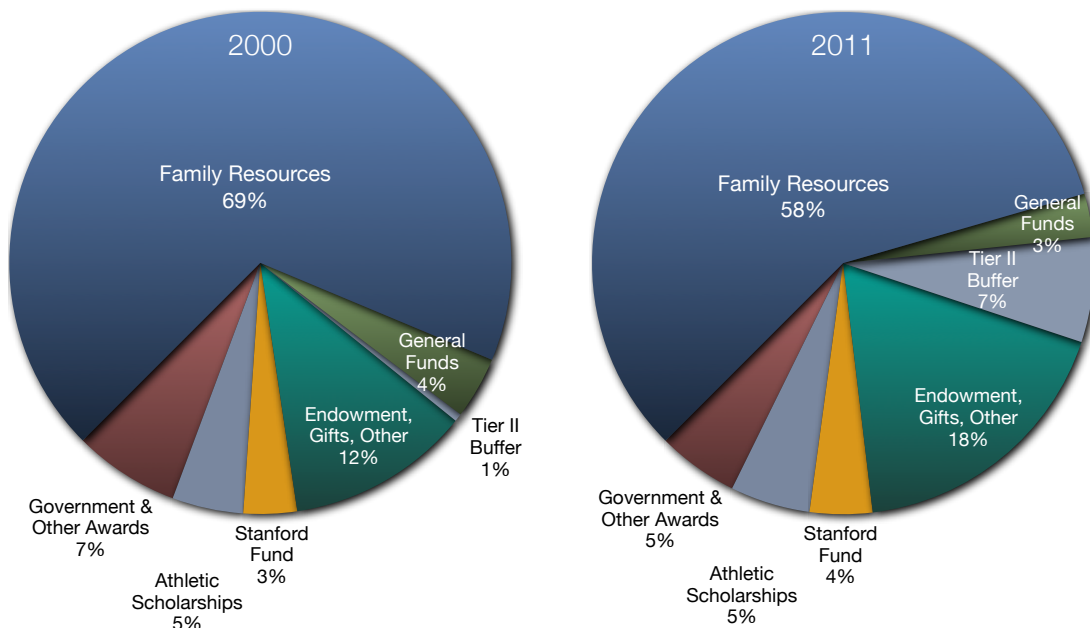
6

Undergraduate Need-Based Aid

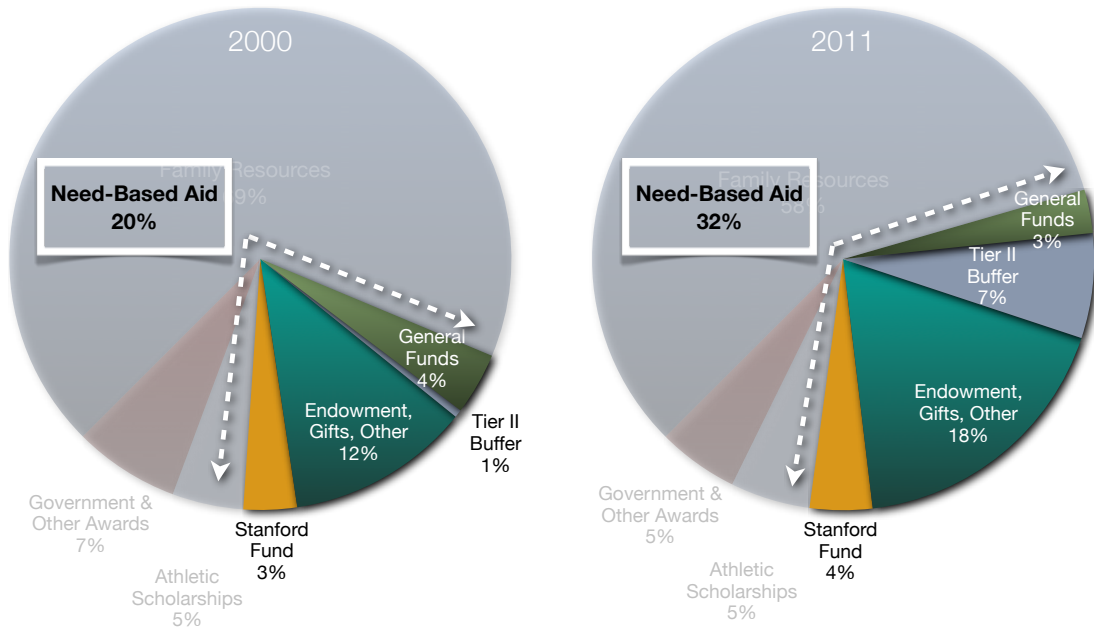


Does not include athletic scholarships or outside sources

Undergraduate Tuition: Who pays?



Undergraduate Tuition: Who pays?



9

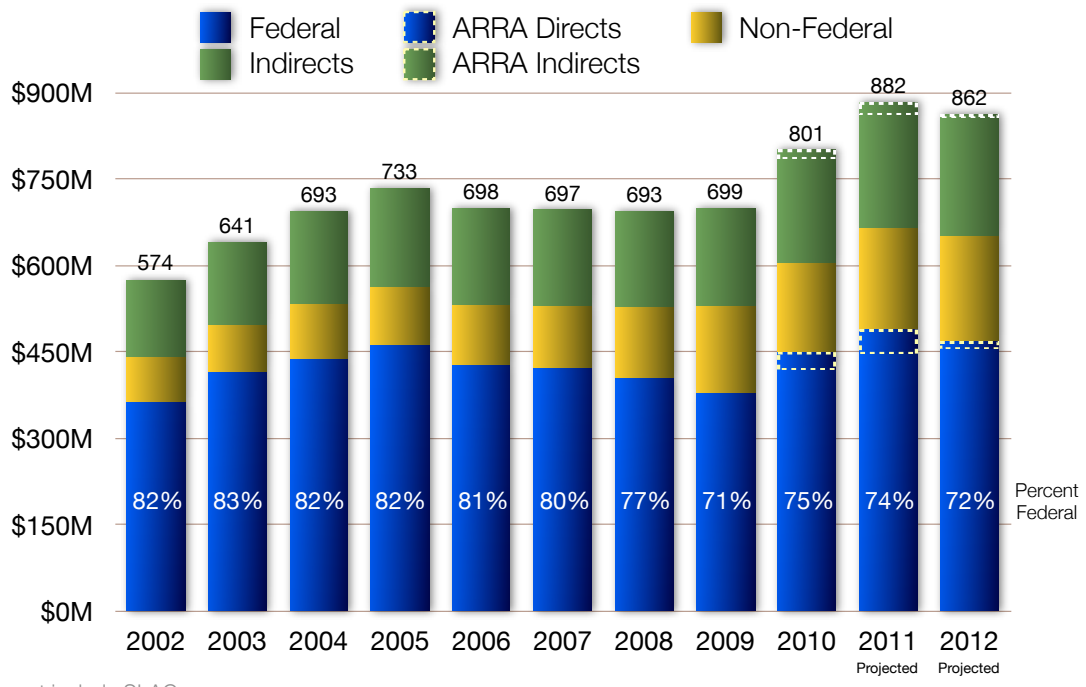
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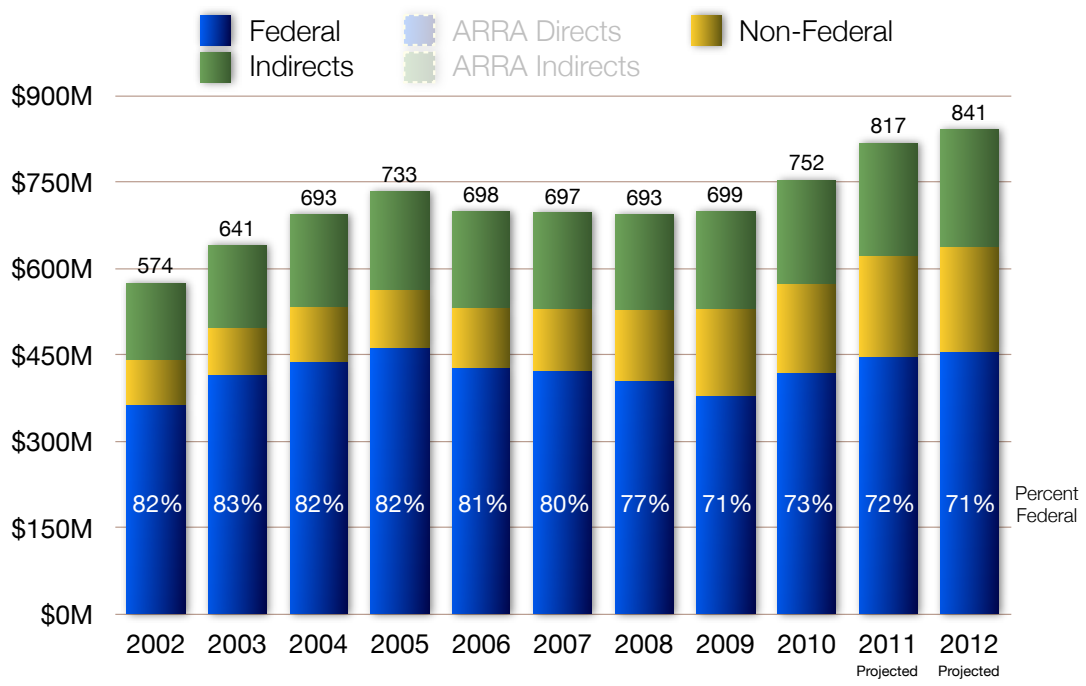
10

Sponsored Research



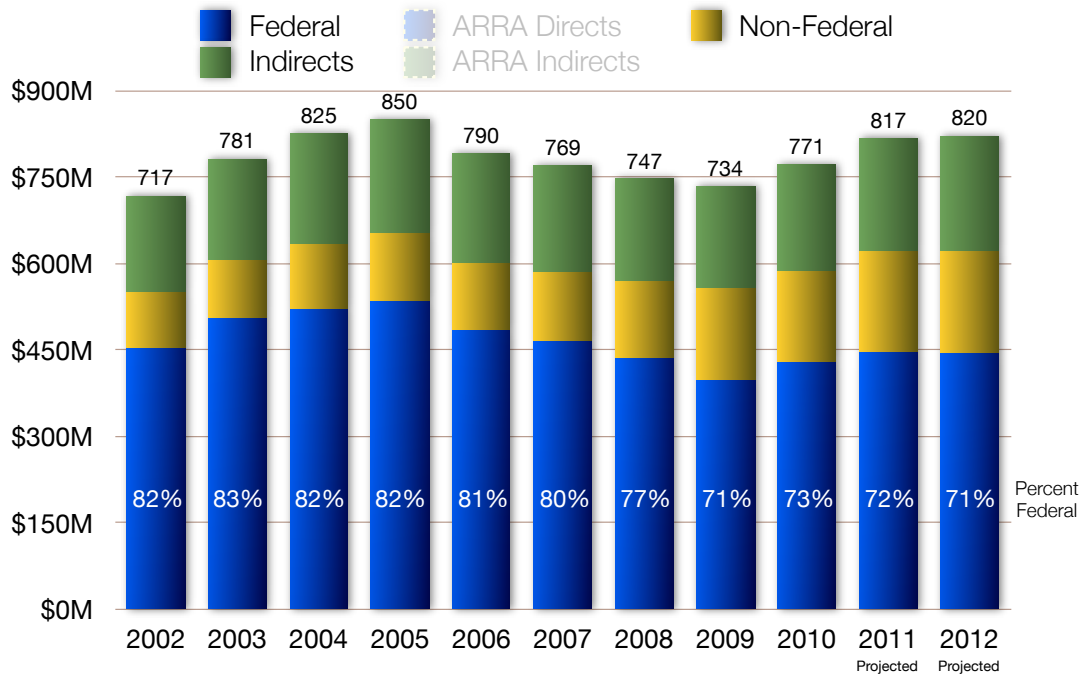
Does not include SLAC

Sponsored Research *without ARRA*



Does not include SLAC

Sponsored Research without ARRA, inflation adjusted



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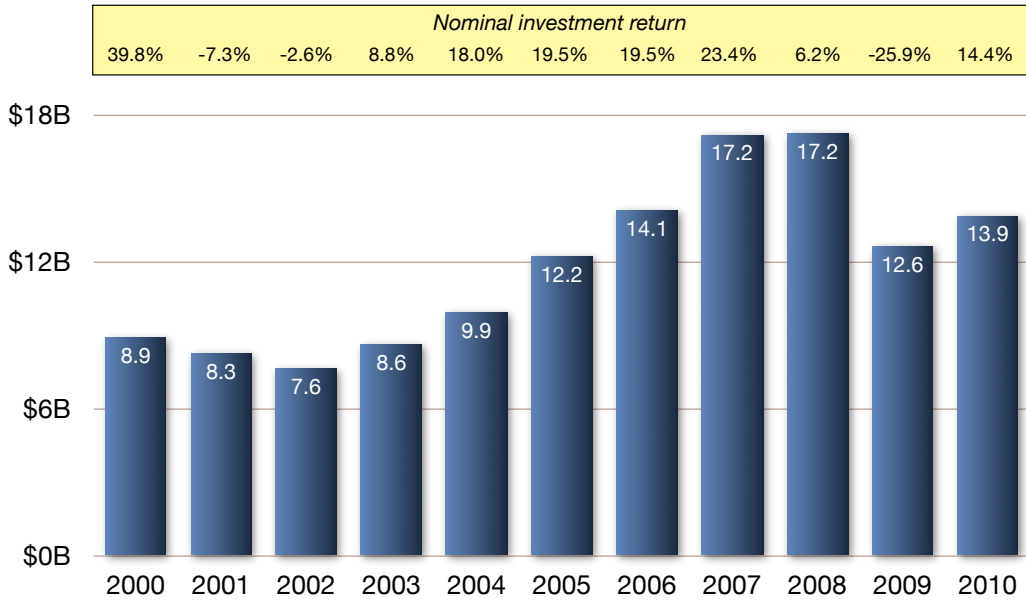
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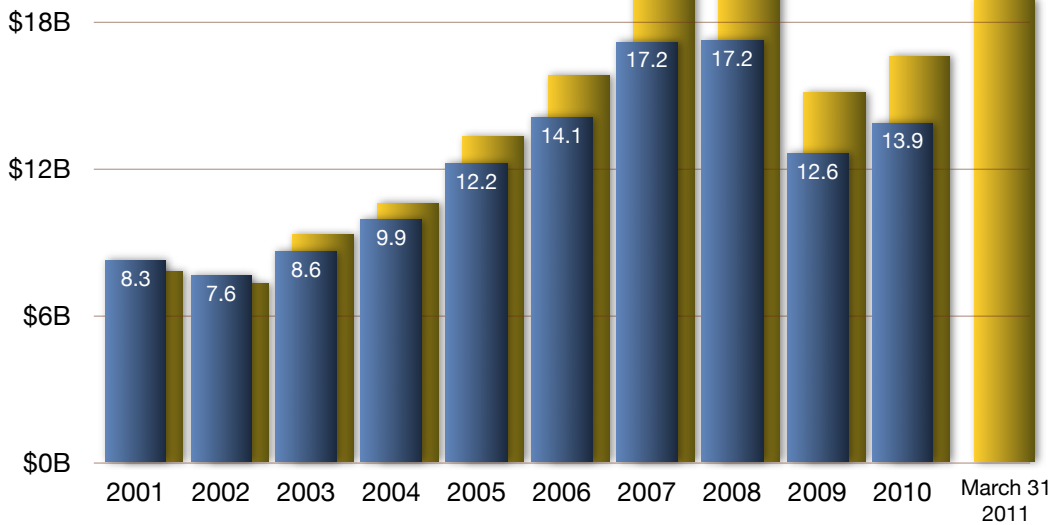
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Endowment Market Value



Endowment value as of June 30

Endowment Market Value (and Merged Pool)



Endowment value as of June 30; MP values as of August 31

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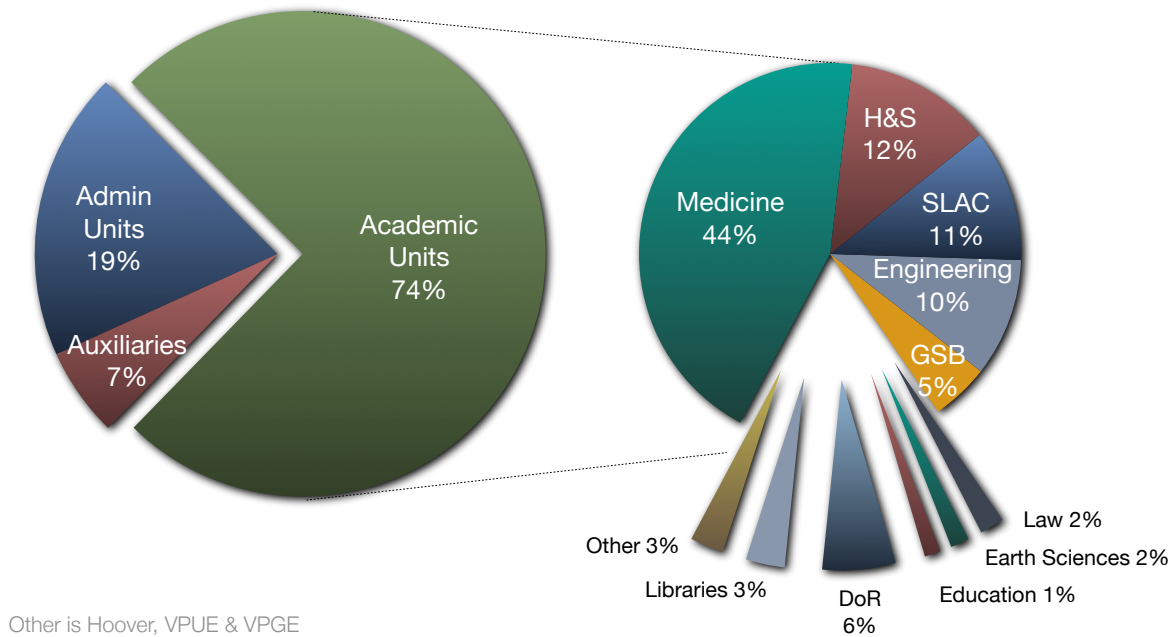
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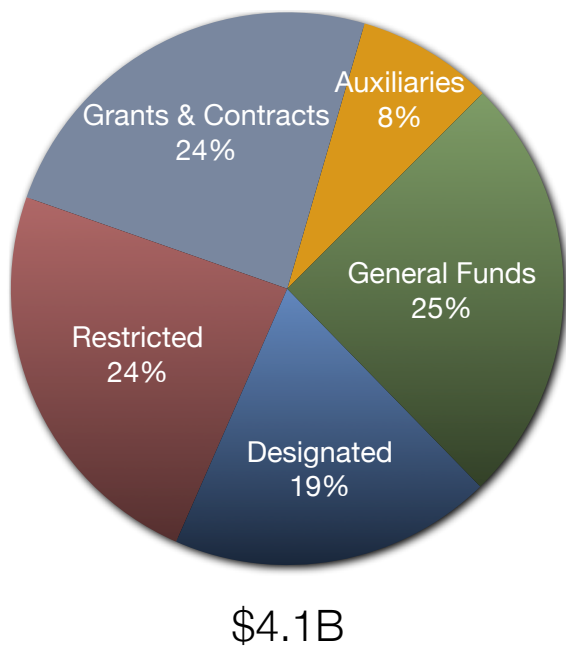
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Consolidated Budget by Unit



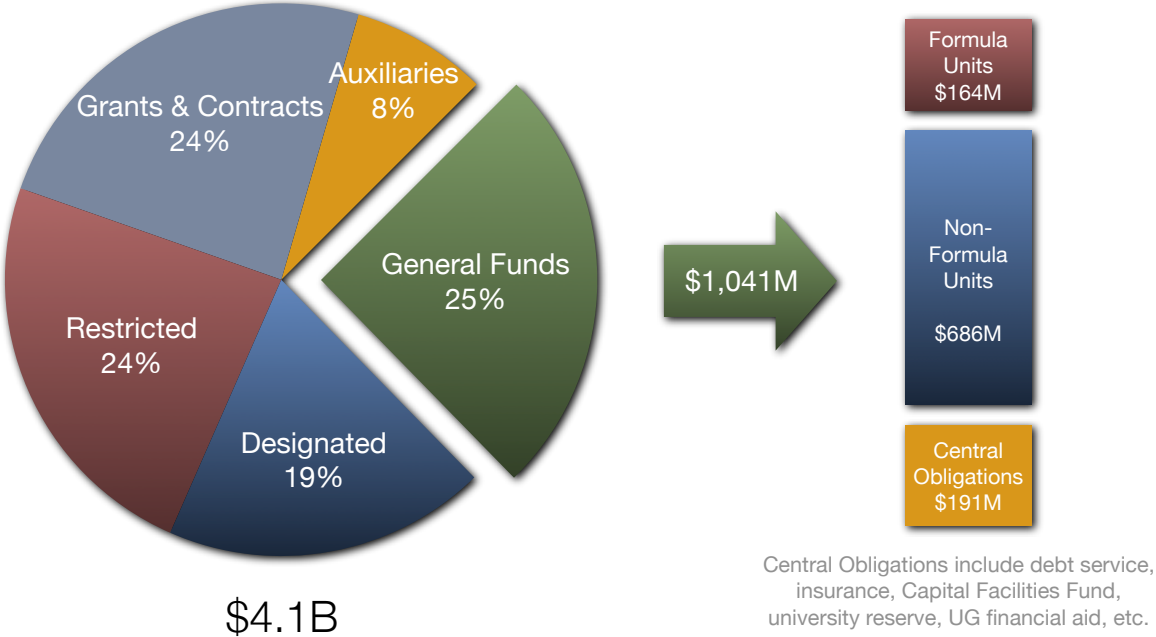
21

Consolidated Budget by Fund Type



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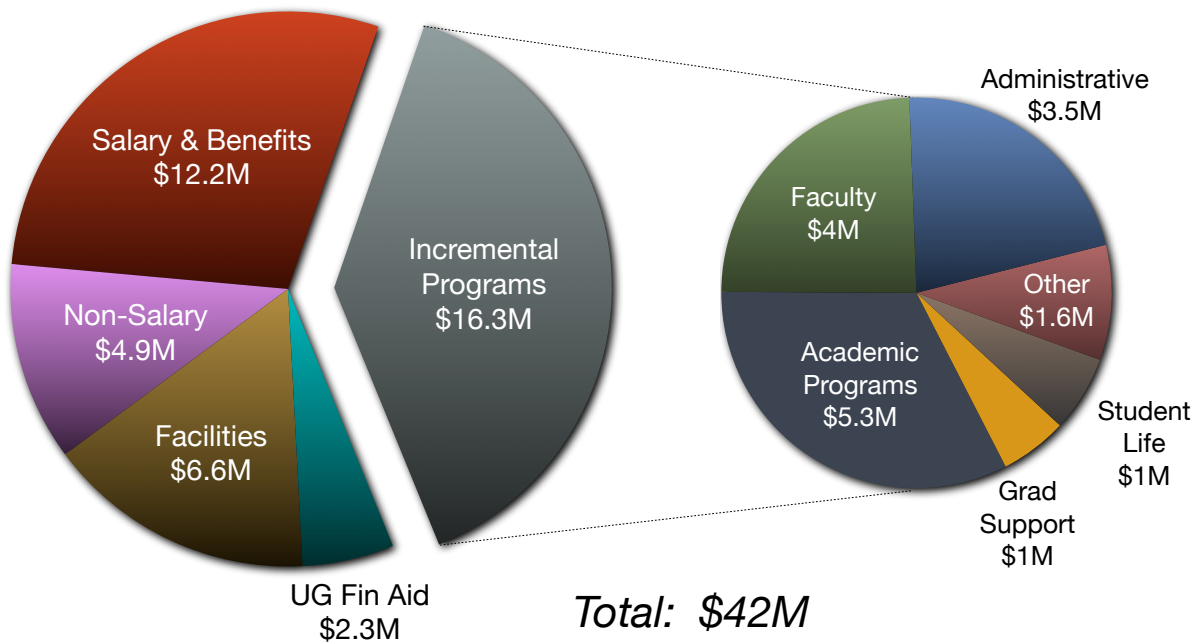
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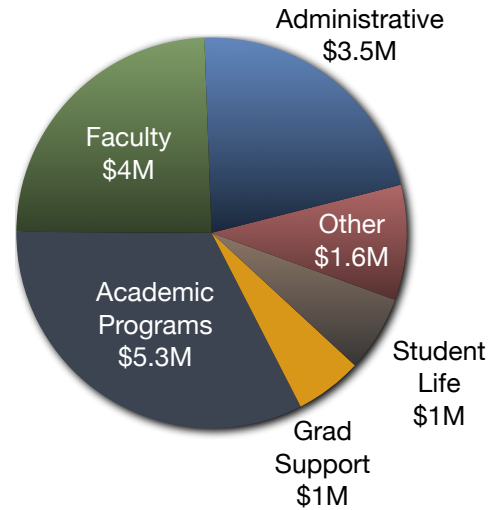
General Funds Budget

General Funds Budget 2011-2012		% of Revenue/ Expense
Tuition	\$579.6	55.7%
Indirect Cost Recovery	216.9	20.8%
Investment Income	210.2	20.2%
Endowment Income	146.1	
Other Investment Income	64.1	
Other Income	33.9	3.3%
Total General Funds Revenue	\$1,040.6	
Salaries and Benefits	556.2	65.4%
Financial Aid	31.9	3.8%
Debt Service	58.4	6.9%
Other Operating Expenses	203.6	24.0%
Total Expenses	\$850.1	
Revenues less Expenses	\$190.5	
Total Transfers	(151.0)	
General Funds Surplus	\$39.5	

Incremental General Funds Allocations



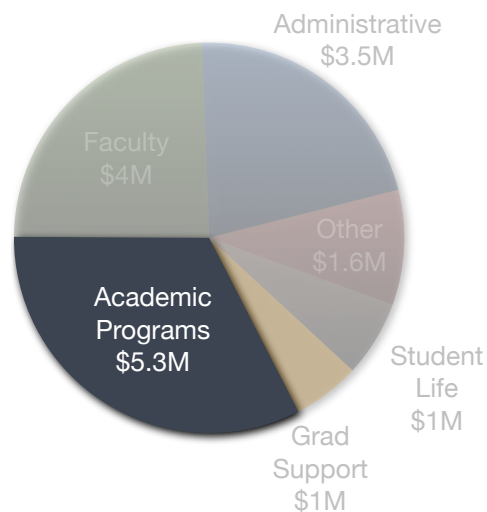
Incremental General Funds Allocations



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Incremental General Funds Allocations

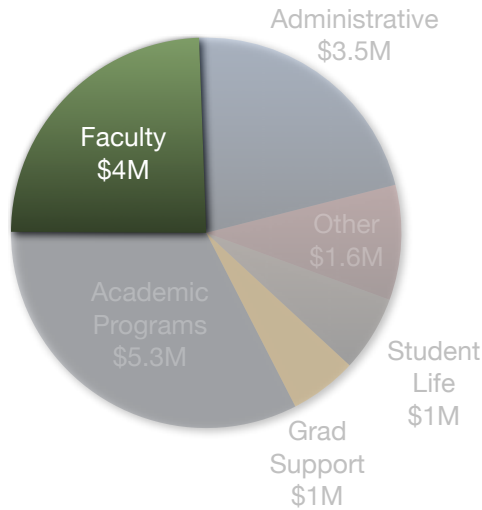
- Reinstate Overseas Seminars in VPUE
- Teaching resources in Language Center and Econ 1A/1B
- Convert UG Education minor from pilot to base
- Array of academic programs in Dean of Research, SULAIR, Law



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Incremental General Funds Allocations

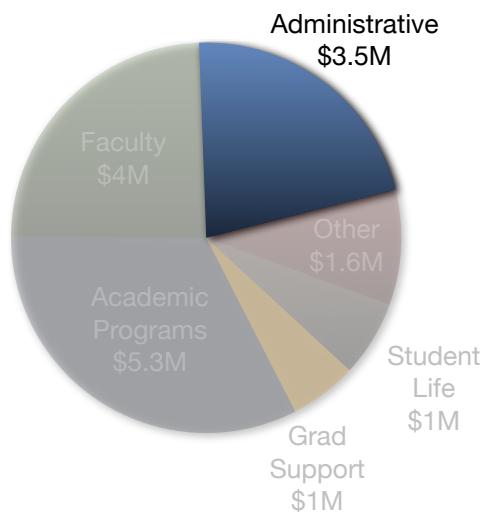
- Faculty positions in new Geobiology program
- Faculty recruitment support in H&S and Law
- Retention and equity adjustments in H&S
- Continued support for Faculty Incentive Fund and Faculty Development Initiative



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Incremental General Funds Allocations

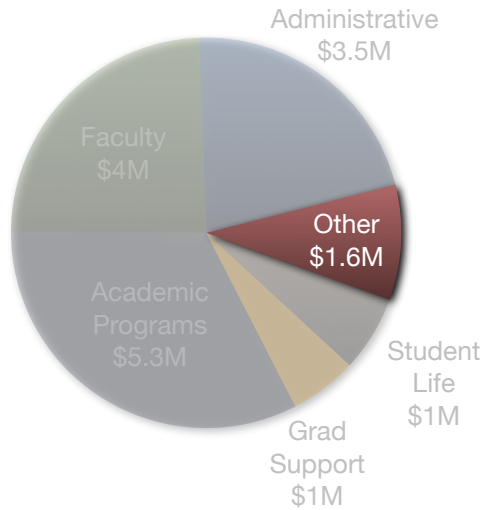
- Increased Business Affairs capacity for campus support and global support and compliance
- Modest increases in UG Admissions to cope with continued increase in applications and interest
- Final increment in Development base buildup; increased major gift and international efforts



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Incremental General Funds Allocations

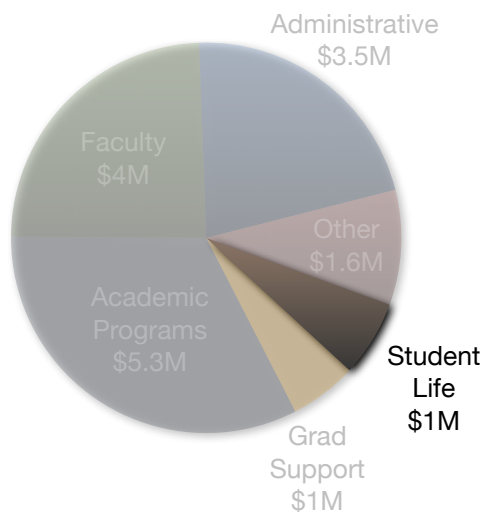
- Additional support for energy conservation efforts in LBRE
- Add one deputy sheriff in Public Safety
- Additional base support for BeWell program



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Incremental General Funds Allocations

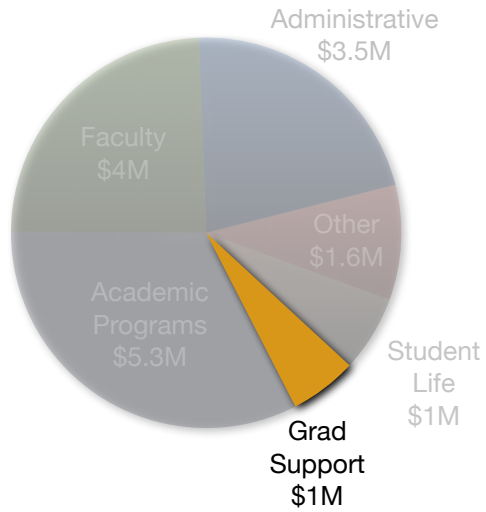
- Increased support for Student Services Center
- Residential Education enhancements
- Additional Physician Assistant/Nurse Practitioner and CAPS Case Manager in Vaden
- Increased support for Graduate Life Office and Bechtel International Center



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Incremental General Funds Allocations

- Growth in Education doctoral cohort
- Base funding for Engineering TAs
- Selected student services enhancements



Lessons Learned

Budget Lessons

- *In good times, we need more discipline adding staff*
 - ◆ 10 year growth in faculty (except SoM) and students has been slow and relatively controlled
 - ◆ In units funded entirely through General Funds, staff growth has also been relatively slow—limited by available funds
 - ◆ Staff growth in units with significant non-GF revenue has been large and uncontrolled
 - ◆ Do we need a billeting system for staff?
- *In very bad times, moving quickly is better than “smoothing”*
 - ◆ We had option of one year of sizable cuts vs. 4-5 years of smaller cuts
 - ◆ Former yields more strategic, thoughtful reductions

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Expendable Funds Buffering Policy

- Buffering policy worked well for normal investment fluctuations (including 2001-2002 downturn)
- With extreme investment losses, policy left General Funds budget exposed to large and immediate drops (>\$40M in FY10)
- *Policy needed revision*

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Expendable Funds Buffering Policy

- Buffering policy worked well for normal investment fluctuations (including 2001-2002 downturn)
- With extreme investment losses, policy left General Funds budget exposed to large and immediate drops (>\$40M in FY10)
- *Policy needed revision*

New policy puts more buffering risk on sources of one-time funding; provides more protection for base budget.

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Endowment Lessons

- *In addition to risk profile of portfolio, more attention needs to be given to liquidity of portfolio*
 - ◆ In extreme liquidity crisis, institution can become cash starved
 - ◆ Even when there is no crisis, less than optimal investment decisions may be forced
 - ◆ Did not happen to us, thankfully, but could have
- *Did we learn that “Yale investment model” is a mistake?*

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Annualized Returns (ending 6/09) vs. Indexes

	Stanford Endowment	S&P 500 (Domestic Equities)	MSCI EAFE (Foreign Equities)	MSCI REIT (Real Estate)	GSCI (Commodities)	10-year Treasuries
1-year	-25.9%	-26.2%	-31.0%	-43.7%	-59.7%	7.3%
3-year	-1.0%	-8.2%	-7.5%	-18.5%	-15.2%	8.2%
5-year	6.8%	-2.2%	2.8%	-3.0%	-3.4%	5.5%
10-year	8.9%	-2.2%	1.6%	5.3%	6.3%	5.8%
30-year	16.4%	10.8%	9.6%	3.3%	6.8%	8.2%

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Endowment Lessons

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 - ◆ In extreme liquidity crisis, institution can become cash starved
 - ◆ Even when there is no crisis, less than optimal investment decisions may be forced
 - ◆ Did not happen to us, thankfully, but could have
- *Did we learn that “Yale investment model” is a mistake?*

No
(though we should continually
assess mix/risk/liquidity
of portfolio)

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Research Outlook

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What will happen if the Federal research
budget remains flat for 5 years
(and our share remains the same)?

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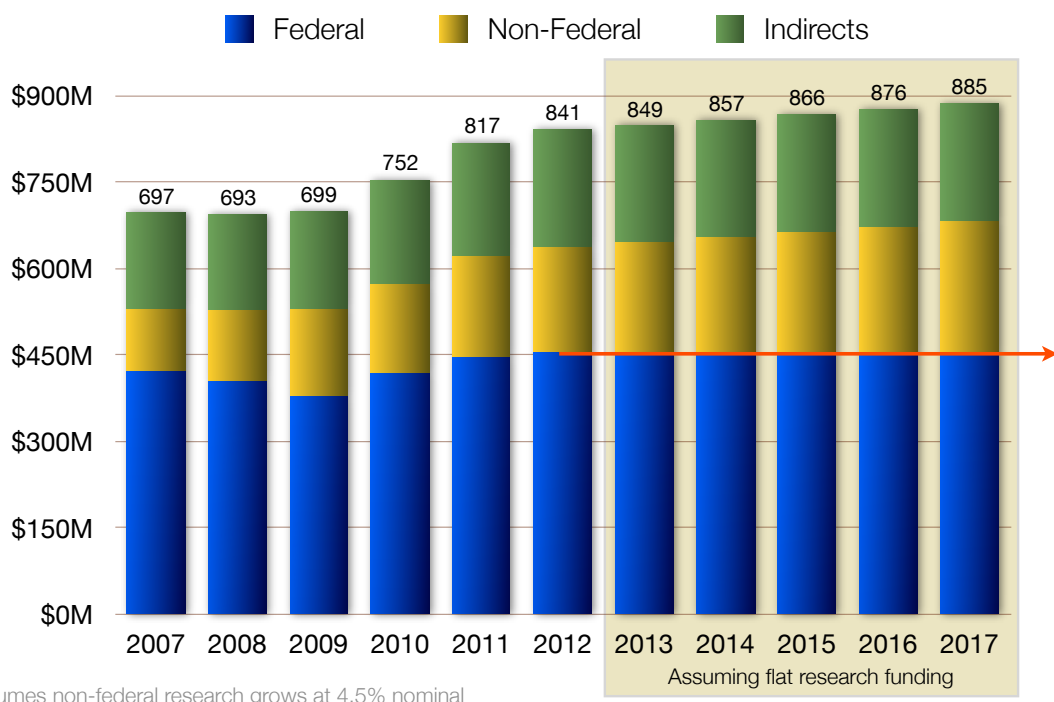
... to Graduate Students?

... to Postdocs?

... to Indirect Cost Recovery?

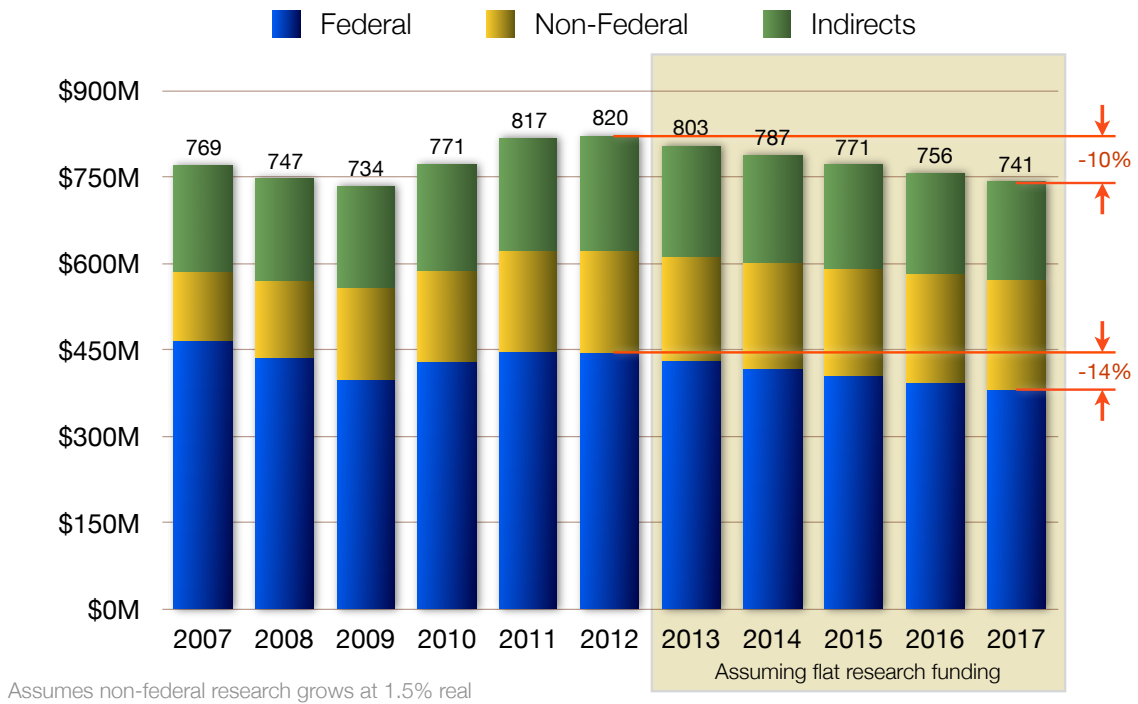
... to the rest of us?

Sponsored Research (Projection) *without ARRA*

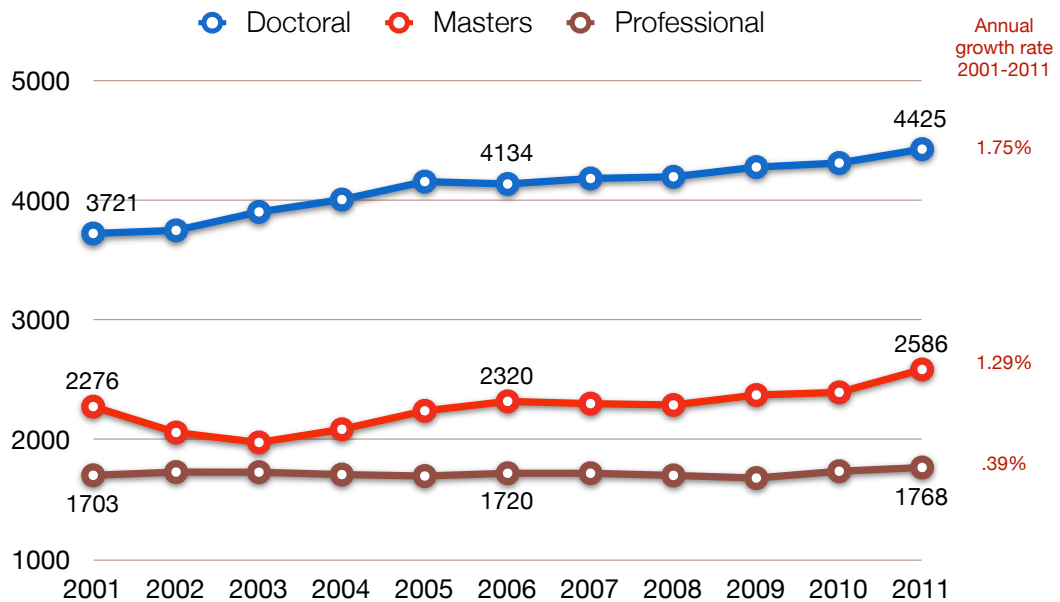


Sponsored Research (Projection)

without ARRA; inflation adjusted

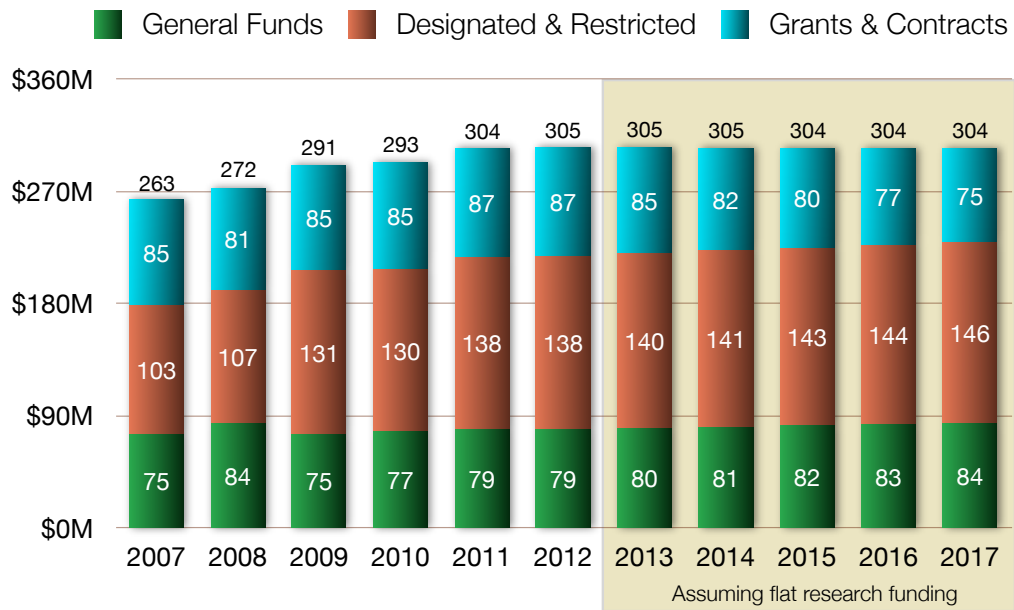


Graduate Student Enrollment (Historical)



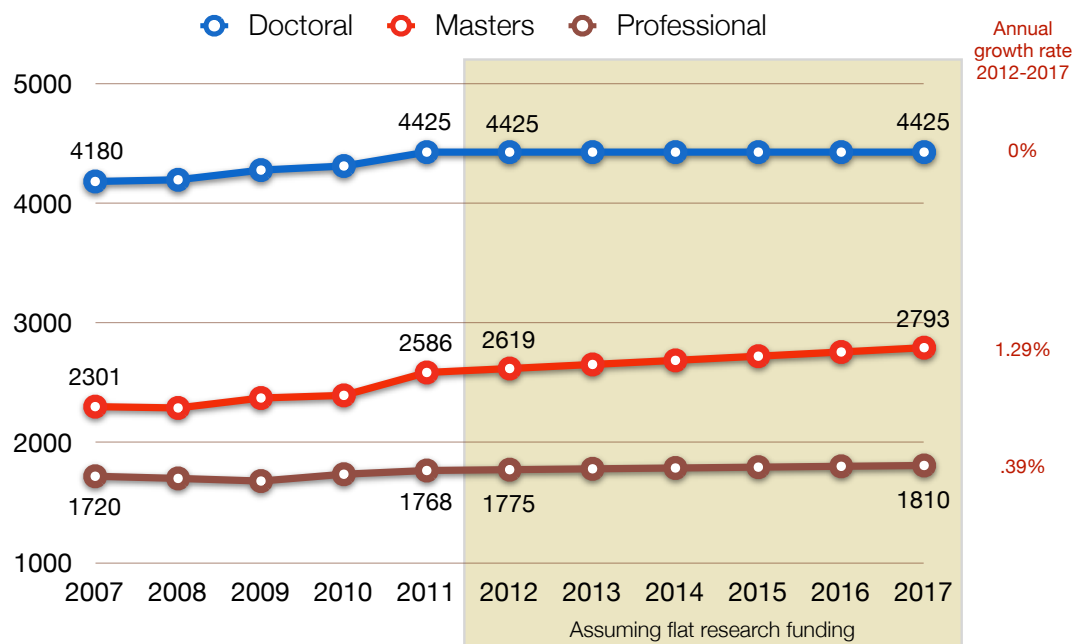
Graduate Student Funding (Projection)

inflation adjusted



Assumes 1% real growth in Designated, Restricted, and General Funds

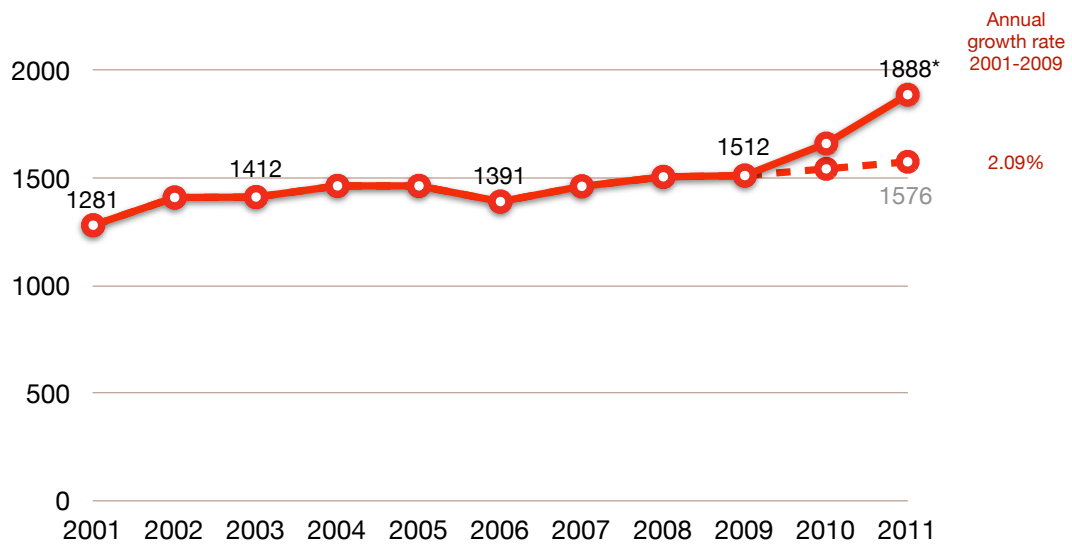
Graduate Student Enrollment (Projection)



Graduate Students

- Effects would largely be limited to doctoral (PhD) students
- Global impact would be dampened by growth in other graduate funding
- Local disruption inevitable due to lack of fungibility of some funds
- At best, total number of doctoral students would remain level
...but would decline if cost per graduate student exceeds inflation

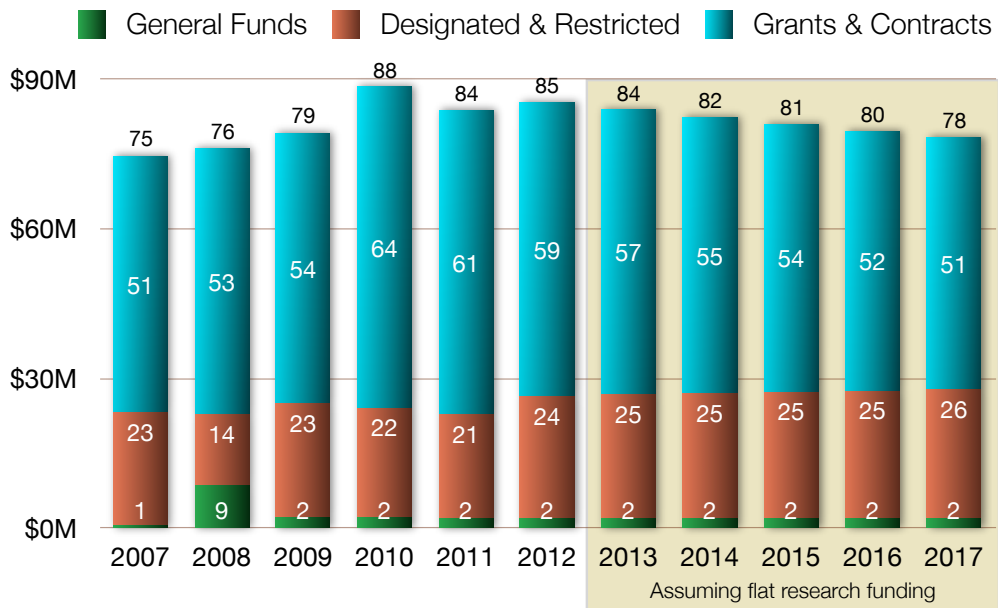
Postdoc Numbers (Historical)



* 2010 & 2011 anomalous due to one-time suspension of 5 year postdoc limit

Postdoc Funding (Projection)

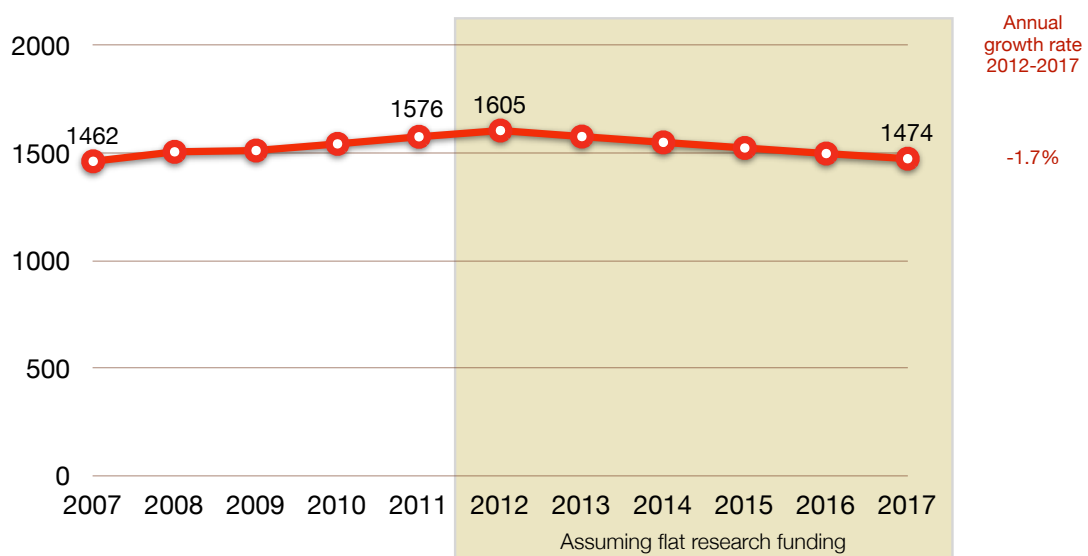
inflation adjusted



Assumes 1% real growth in Designated, Restricted, and General Funds

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Postdoc Numbers (Projection)



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Postdocs

- Effects would *not* be dampened by other funding
- Since postdoc funding is not fungible, effects would be entirely in science and engineering fields
- Decreases in postdoc numbers would be inevitable
- Similar effect likely for research staff positions

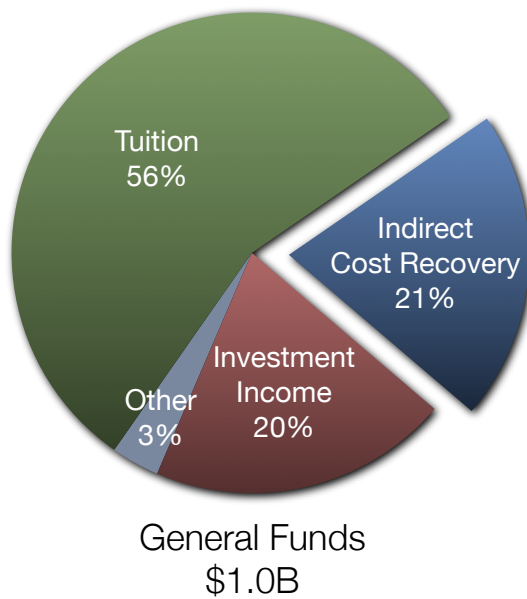
53

Indirect Cost Recovery

To understand potential effect on Indirect Cost Recovery, first need to understand how it works.

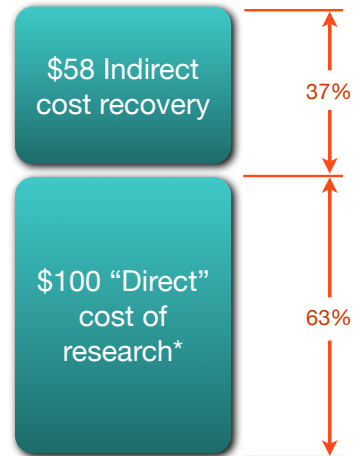
54

Indirect Cost Recovery



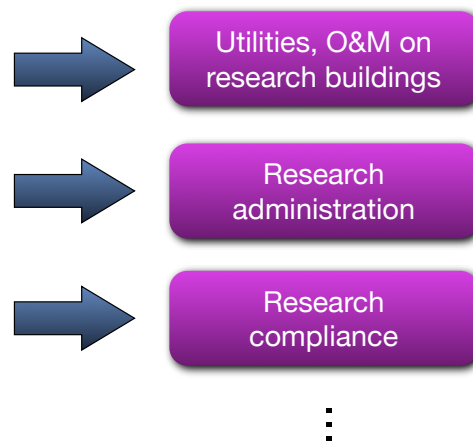
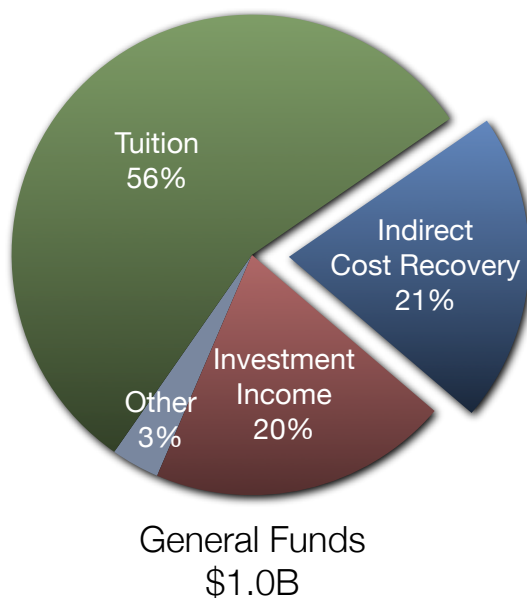
Research Grant

Current Indirect Cost Rate = 58%



* Certain direct research costs excluded from IDCRC calculation

Indirect Cost Recovery



Indirect Cost Rate Calculation

$$\begin{array}{l} \boxed{\text{Facilities Rate}} \\ + \\ \boxed{\text{Admin Rate}} \\ \text{(Capped at 26%)*} \\ \hline \boxed{\text{Total Indirect Cost Rate}} \end{array} = \begin{array}{l} \boxed{\frac{\text{Facilities Costs (Utilities + O\&M)}}{\text{Research Base}}} \\ \boxed{\frac{\text{Administrative Costs}}{\text{Research Base}}} \end{array}$$

* Results in under recovery of full cost of research, even on grants paying "full" overhead charge

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Indirect Cost Recovery

Two final points:

1. Indirect Cost Rate is recalculated (renegotiated) every two years. During these two years, the rate is fixed.
2. When rate is recalculated, new research base is estimated based on latest research volume.

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Indirect Cost Recovery

- In first two years, as research volume stagnates, IDCR will as well, reducing this source of General Funds
 - Equivalent to a 6% reduction in IDCR over two years, roughly \$12 million hit to General Funds
 - *Can be managed with our planned General Funds surplus*
- When Indirect Rate is recalculated, higher facilities costs (due to inflation) *without increased research volume*, would increase the negotiated rate
 - Would yield (partial) recovery of General Funds revenue, but place added overhead burden on research grants
 - Would worsen under recovery of indirect research costs, due to capped administrative rate
 - Net effect after 5 years could be up to 4.5 points added to the rate (e.g., raising current rate of 58% to 62.5%)

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Other Effects

- Even more unsuccessful grant applications; more effort writing grants
- Pressure on faculty salaries (summer support; salary offsets; base salaries in School of Medicine)
- More reliance on other funding sources (which generally do not pay full indirect cost rate)
- Less research accomplished

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But remember:

Historically, Stanford's share of federal research has increased when funding became tight.

End