CHAPTER 3

ADMINISTRATIVE & AUXILIARY UNITS

ADMINISTRATIVE UNITS

This chapter focuses on initiatives and priorities in the administrative and auxiliary units of the university. These units provide the needed administrative, academic, and student support that allow faculty and students to do their best work.

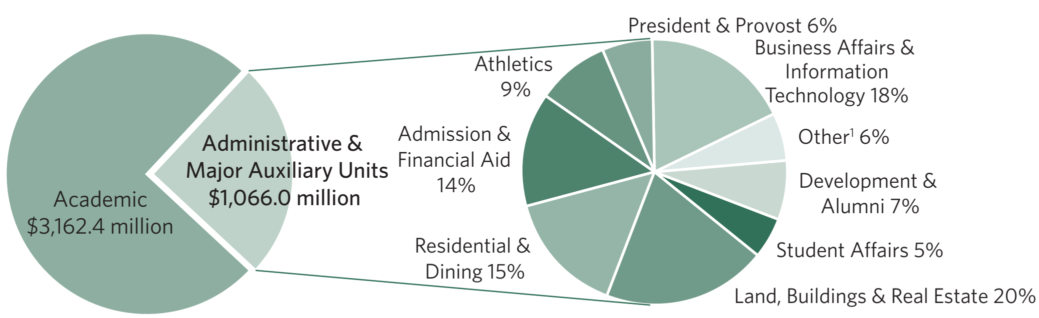
CONSOLIDATED BUDGET FOR OPERATIONS, 2011/12:

Administration & Major Auxiliary Units

[IN MILLIONS OF DOLLARS]

	TOTAL REVENUES AND TRANSFERS	TOTAL EXPENSES	RESULT OF CURRENT OPERATIONS	TRANSFERS (TO)/FROM ASSETS	CHANGE IN EXPENDABLE FUND BALANCE
Administrative Units					
Business Affairs & Information Technology	184.2	187.3	(3.1)	(0.2)	(3.3)
Development	42.9	44.2	(1.3)		(1.3)
General Counsel & Public Safety	31.9	31.9			
Land, Buildings and Real Estate	225.4	218.2	7.3	(9.8)	(2.6)
President and Provost Office	66.6	66.3	0.3	0.4	0.8
Public Affairs	7.7	7.8	(0.1)		(0.1)
Stanford Alumni Association	35.0	35.4	(0.4)	0.1	(0.3)
Stanford Management Company	24.9	24.9			
Student Affairs	50.3	51.8	(1.5)		(1.5)
Undergraduate Admission and Financial Aid	147.3	147.3			
Major Auxiliary Units					
Athletics (Operations and Financial Aid)	87.3	91.3	(4.0)	3.1	(1.0)
Residential & Dining Enterprises	157.7	159.7	(2.0)		(2.0)
Total Administrative & Auxiliary Units	**1,061.4**	**1,066.0**	**(4.6)**	**(6.5)**	**(11.1)**

2011/12 Consolidated Expenses by Administrative & Major Auxiliary Units



[1] Other is Stanford Management Company, General Counsel & Public Safety, and Public Affairs.

Administrative and Auxiliary Units

BUSINESS AFFAIRS & INFORMATION TECHNOLOGY

The 2011/12 consolidated budget for Business Affairs shows revenues and transfers of $184.2 million and expenses of $187.3 million. It projects use of $3.3 million of reserves to fund onetime requests for operations, cover service center shortfalls, and fund research and IT systems projects in 2011/12. In 2010/11 Business Affairs projects use of $2.3 million in reserves, primarily to fund systems projects. Such projects span fiscal years and use or create reserve funds annually, depending on the projects undertaken in a given period.

General funds account for nearly 60% of Business Affairs revenues, service center operations for 36%. The remaining 4% comes from operational services to the hospitals, students, the School of Medicine, and the Stanford Management Company, and from internal and external credit card merchant compliance and service programs.

Business Affairs provides integrated financial, IT, business, and human resource services for the benefit of the university community. Its business units include Human Resources (HR) (dual reporting to the president), Financial Management Services (FMS), IT Services (ITS), Administrative Systems (AS), IT and Research Systems Projects, Research Financial Compliance and Services (RFCS), Office of Sponsored Research (OSR), Information Security (ISO), Internal Audit and Institutional Compliance (IAIC), Risk Management, and Business Development & Privacy (BDP).

FMS, created in 2010/11, includes five primary areas: the Controller's Office, Office of the Treasurer, Purchasing & Payment Services, Global Activities, and Consulting & Support. This newly combined unit will be able to better manage complex, interdependent financial business challenges, more effectively address compliance issues, and improve the efficiency of financial processes in central offices, schools, and departments. As part of the reorganization, the Student Services Center (SSC) unit was transferred from the Controller's Office to Student Affairs.

In 2010/11 the Office of Research Administration was divided into two departments: OSR, which reports jointly to Business Affairs and the vice provost for research, and RFCS.

Under the vision "We will work together to make administration seamless and efficient to enable and support teaching, learning, and research," Business Affairs has five strategic goals:

1. Create an environment that attracts, retains, and develops world-class staff.
2. Transform administrative processes, systems, and infrastructure throughout the university so that people can spend more time on value-added activities.
3. Deliver accurate, timely, and useful information to support decision making.
4. Create a comprehensive and balanced approach to university-wide risk management.
5. Continuously improve the satisfaction of faculty, staff, students, and other clients with administrative services.

Business Affairs is focused on continuous improvement in delivering excellent service to clients and becoming ever more efficient. This focus has enabled it to maintain the same number of staff (850 FTEs) over the past decade, compared to a 29% staff growth rate across the university.

The following are some highlights of Business Affairs' continuous-improvement initiatives:

- OSR and AS deployed Module 2 (SPIDERS replacement) of the Stanford Electronic Research Administration System (SeRA) this spring and are completing the requirements for the next two SeRA modules for delivery in 2011/12.
- FMS, AS, RFCS, and OSR are implementing a centralized account setup and maintenance application that will eliminate several manual processes and paper forms, cut the gift transmittal process by roughly three days, and provide better data security and a central electronic location for account information. The first steps included implementation of (1) digital files for endowment and gift funds, allowing immediate and simultaneous access to fund records by multiple departments, improving file tracking, and eliminating physical file space and courier service, and (2) the PTA maintenance application, which will also serve as the account setup module for SeRA.
- HR and the chief financial officer are redesigning health benefit plans to improve the health of participants and slow the growth in premiums.
- IAIC, with support from several other units, is leading an enterprise risk management process with detailed reviews of risks associated with earthquakes, global

initiatives, student health and well-being, and potentially declining federal research funding.

- ITS, BDP, and ISO are implementing mobile device security, multifactor authentication, and other solutions to prevent online account abuse.
- ITS is completing the rollout of converged voice/data communications (VoIP) with simplified billing.
- AS, HR, and OSR are rolling out "business intelligence" dashboards for research and HR data.

OFFICE OF DEVELOPMENT

The Office of Development (OOD) shows total revenues of $42.9 million and expenses of $44.2 million, resulting in a net operating deficit of $1.3 million. This deficit will be covered by drawing down accumulated reserves. The Stanford Challenge campaign comes to an end in December 2011, so OOD will receive a final transfer of presidential funds to cover campaign costs in 2011/12. The other significant source of funding remains a transfer from Stanford Hospital and Clinics for costs associated with the Office of Hospital Development. Revenue from events and other items remain quite modest.

OOD's total expenses for 2011/12 are budgeted to be slightly higher than its 2010/11 year-end projection of $43.4 million. Compensation costs will increase beyond growth assumptions as OOD expects to add a number of incremental positions. Therefore, total compensation costs are about 12% higher in 2011/12 than the year-end projection for 2010/11. Nonsalary costs will decline significantly, mainly because OOD's Leading Matters outreach program will end in May 2011.

Over the last several years, OOD has been able to increase its reserves significantly, and it plans to use some of those funds as seed funding for new projects in 2011/12. Two main areas of investment are data analytics and technology.

- OOD will hire a new full-time director of prospect management and analytics in 2011/12. The position will work to ensure that development officers are engaged in the most value-added activities, prospects are receiving the attention they need, and the university's fundraising goals have a high probability of being achieved. As the growing number of prospects exceeds OOD's capacity given its current number of fundraisers, this position will play a critical role in focusing their efforts.
- OOD's donor database is now more than fifteen years old and is shared by the Stanford Alumni Association (SAA). To extend its useful life as long as possible, OOD and SAA plan to add incremental IT positions. Their focus will be enhanced reporting capabilities; support for video and mobile interactions with donors and alumni; performance metrics collection and analysis for fundraisers; and additional system support to ensure the system runs efficiently, securely, and reliably every day.

In addition, OOD expects to focus in 2011/12 on completion of the Stanford Challenge and celebration of its strong success. The campaign ends on December 31, 2011. Two large events will be held on campus to highlight its achievements. In October, OOD will host an on-campus Leading Matters event open to all faculty, staff, and students. In February, there will be an on-campus celebration for those most closely tied to the campaign and its successes. As the campaign ends, OOD will need to reevaluate priorities for raising funds, how to effectively keep organized the numerous active and engaged volunteers, and how to develop the most effective outreach programs. OOD will continue to partner with SAA in post-campaign outreach.

As the campaign concludes, OOD must turn its attention more than ever to stewardship. The campaign has generated much new support for the university; more than 650 households have committed $1 million or more to the Stanford Challenge, and this is the first time many of them have made a commitment at this level. OOD is working hard to provide personalized and meaningful stewardship to donors at all gift levels.

GENERAL COUNSEL AND PUBLIC SAFETY

The Office of General Counsel (OGC) projects a $490,000 surplus in 2010/11. OGC does not anticipate any significant increase in operational costs other than increased rates for outside counsel. OGC does not have an increase in general funds to compensate for these. Firms have agreed to limit their rate increases for calendar year 2011, but additional increases are expected in January 2012, although it is too early to predict the amounts. The proposed level of general funds along with anticipated client retainers is expected to cover operating expenses absent any unanticipated extraordinary matters.

OGC will continue to focus on its main strategic priorities: (1) proactively trying to constrain costs by increasing efficiency; (2) identifying risk; (3) implementing mitigation strategies, including preventative counseling and more comprehensive client training; and (4) resolving disputes early. OGC will continue its effort to maintain an optimal balance between inside and outside counsel to provide efficient, high-quality service. Internal operating costs are already lean, and there is not much opportunity for further cost reduction.

OGC anticipates providing legal services at the required level but prioritizing risks; it may not provide some services so long as this does not increase risk too much. OGC expects that it has adequate reserves to backstop a shortfall, should one occur. OGC would like to allocate at least part of any surplus to the Public Safety building fund.

The Department of Public Safety (DPS) projects a balanced budget in 2010/11. DPS continues to operate with lean staffing, especially of sworn personnel. In August 2010, the university and the Deputy Sheriffs Association, which represents approximately 25 deputies and community service officers, agreed to a five-year contract providing salary increases each year. The focus for the department for 2011/12 will be continuing to provide high-quality public safety services to the Stanford community while remaining efficient and, where possible, implementing process improvements and other cost-saving strategies. Any budget surplus would be allocated to the Public Safety building fund.

LAND, BUILDINGS AND REAL ESTATE

Land, Buildings and Real Estate (LBRE) is responsible for implementing the university's capital plan; managing commercial real estate on endowed lands; managing campus utilities, grounds, and parking and transportation; providing stewardship for 8,180 acres; and managing operations and maintenance for 240 academic buildings totaling over nine million square feet, Hopkins Marine Station, and other off-campus facilities.

The $218 million consolidated expenses budget for 2011/12 (including the Real Estate unit, and before elimination of internal revenue and expense) is $15.2 million greater than the 2010/11 projection. The increase comprises $4.5 million in accelerated debt service for stranded assets due to the Campus Energy System Improvements (CESI) initiative (see the Sustainability and Energy Management/CESI discussion in the Capital Plan section); $3.7 million for operations and maintenance for the new structures; $3.5 million in salary, benefits, and other increases (delayed hiring for 2010/11 accounts for $2.3 million of this increase); $1.7 million for a new Outdoor World renewal program; $1.1 million in energy savings reimbursements resulting from retrofit investments; and a $0.7 million increase for janitorial service.

LBRE's 2011/12 consolidated budget includes the budgets for Utilities (39%), Building Maintenance (35%), Parking and Transportation (7%), Grounds Maintenance (5%), Event Services (3%), and Materials Management (1%). Project Management, the University Architect/Campus Planning Office, Land Use and Environmental Planning, and the Office of the Vice President account for 6% and Real Estate for the remaining 4%.

PRESIDENT AND PROVOST OFFICE

The Office of the President and Provost (PPO) comprises the President and Provost Office, the Board of Trustees, Continuing Studies and Summer Session/Education Program for Gifted Youth (EPGY), Institutional Research/Decision Support, the University Budget Office, Diversity and Access, Faculty Development and Diversity, Faculty Affairs, the Academic Secretary, the Office of Religious Life, and Faculty/Staff Housing.

PPO projects a $770,000 surplus in 2011/12. PPO will continue to use reserves to support various staff development programs, cover unanticipated expenses throughout PPO and reinstate the Springfest multicultural event. New initiatives are being planned in the area of junior faculty development and recruiting and retaining women faculty in science and engineering that are not yet specific enough to be reflected in the 2011/12 budget plan but are a planned use of PPO reserves. The proposed level of general funds is sufficient to cover basic operating expenses, so no incremental general funds have been requested. Over the past 11 years PPO has built reserves to assist units with special requests and unbudgeted expenses, with 2010/11 showing a $734,000 surplus accordingly.

EPGYs proposed licensing of online courses in mathematics and language arts through the Office of Technology Licensing will expand upon the existing Online High School program and is estimated to bring in $5M in incremental revenue in 2011/12, after kicking off in the current fiscal year.

PUBLIC AFFAIRS

The Office of Public Affairs (OPA) is projecting an operating loss of $82,000 in 2011/12, resulting in an ending fund balance of approximately $500,000. This operating loss is due mostly to spending reserves on various internal and external projects, such as survey research and support for other campus programs. The $500,000 ending fund balance comprises $380,000 in unrestricted funds, $30,000 in restricted operating funds, and $90,000 in restricted endowment funds. Total revenue and transfers in 2011/12 are expected to decrease 4.5% to $7.7 million as the Dalai Lama visit in 2010/11 was a nonrecurring event. Total expenses are expected to decrease 6.5% to $7.8 million. Salary expenses are expected to increase approximately 4.5% to $6.2 million, but nonsalary expenses are estimated to decrease 33% to $1.6 million. The higher nonsalary expenditures in 2010/11 were due to the Dalai Lama event as well as several large capital equipment purchases to upgrade OPA's video production unit to HD format. OPA will receive an additional $125,000 of base general funds in 2011/12 to continue the Stanford on iTunes U/YouTube program, launched with onetime funds in October 2005.

OPA is a group of organizations dedicated to protecting and advancing Stanford University's mission and reputation as one of the world's leading research and educational institutions. Its three major departments—Government & Community Relations, the Office of Special Events & Protocol (formerly known as Stanford Events), and University Communications—work together to accomplish this mission by building and fostering relationships with local, state, and federal officials; managing and coordinating internal/external communications through all appropriate platforms; and planning and producing Stanford's highest-profile events and ceremonies.

OPA is the communication hub for Stanford, providing professional news reporting services, designing and maintaining the Stanford home page, managing media relations, writing speeches for the president and provost, and coordinating internal/external communications for the entire university. In addition, OPA is responsible for managing government and community relations on all levels, lobbying for legislation that serves the interests of higher education, and garnering city and county approval for capital projects, such as the New Stanford Hospital. Through the Office of Special Events & Protocol, OPA plans and coordinates several of the university's annual ceremonies, such as Commencement and Parents' Weekend, as well as other high-profile, high-impact events that promote the broadest accessibility to members of the university and its surrounding communities. OPA also implements special projects and provides ad hoc services for the offices of both the president and the provost.

Communications and media are evolving at an incredibly rapid pace, and OPA has positioned Stanford as a new media leader through its Stanford on iTunes U/YouTube program and its efforts in digital innovation through social media networks, such as Facebook and Twitter. OPA is also leading the effort to launch a centralized Web services group in 2011/12 that will provide strategic planning and management of Stanford's Web presence, including oversight of Stanford's Web templates and style guidelines; development, design, and production services for digital communications; and coordination of outsourcing to vendors.

OPA will continue its focus on new media strategies, social media, digital innovation, and mobile platforms to keep Stanford at the forefront of university leadership in communications. OPA is adequately funded through 2011/12 to accomplish these goals, but to expand these programs and maintain Stanford's leadership role in these areas, as well as the even faster-growing mobile applications platforms, will require additional resources in the years to come.

STANFORD ALUMNI ASSOCIATION

SAA expects its consolidated fund balance to decrease by $332,500 in 2011/12 as it uses reserves to offset anticipated ongoing softness in business revenue. SAA will continue to withdraw funds from the life membership endowment fund to underwrite the Web 2.0 project, though withdrawals in 2011/12 are projected to be significantly lower than in prior years.

Roughly 60% of SAA's revenue in 2011/12 will be internally generated, made up largely of business and program revenue coupled with income from endowment and life membership fund payouts. The remaining 40% will come from general funds. In 2011/12, SAA expects revenue to increase slightly over projected 2010/11 results and overall operating expenses to hold relatively flat.

Beginning in 2008/09, SAA undertook major efforts to manage and reduce operating expenses in a manner designed to have the smallest possible impact on the alumni community and to support SAA's long-term ability to achieve its mission of reaching, serving, and engaging all alumni. These efforts have resulted in significant savings in SAA's largest expense areas. SAA continues to seek new cost efficiencies wherever possible, though it is becoming increasingly difficult to find significant new areas for cost containment.

SAA's greatest challenge is to remain relevant and continue to create value for Stanford alumni relative to potential substitutes, while staying mindful of its financial realities. To this end, SAA is focusing its communications, programs, and services to better meet the needs of alumni. It is delivering offerings that provide "Stanford-unique" benefits, such as special access to Stanford faculty, to other alumni, and to meaningful volunteer opportunities. All of these are known to increase alumni goodwill and a sense of connection to Stanford. A critical component of remaining relevant and value-creating is technology. As Stanford alumni broaden their use of technology, SAA must be positioned to meet them in the media and platforms of their choosing. SAA is therefore increasing its investment in technology tools and platforms in 2011/12.

VICE PROVOST FOR STUDENT AFFAIRS

For 2011/12, Student Affairs will continue its ongoing strategic initiatives in residential education, student mental health and well-being, technology development/integration, and program assessment. These priorities are in line with Student Affairs' fundamental mission: to promote student learning and development as an essential component of the student experience and as a complement to learning that occurs in academic settings.

Fund balances are expected to decrease by $1.5 million (7%) to total $20.4 million. This projection assumes beginning fund balances of $21.9 million, total revenues and transfers of $50.6 million, expenses of $51.8 million, and transfers to assets of $343,000. Major factors contributing to the projected decrease in fund balances include:

- use of Vaden reserves to fund the dependent healthcare plan subsidy,
- use of central reserves to fund risk management programs, centralization of IT resources, new initiatives related to student mental health and well-being, and expansion of career planning resources for graduate students,
- drawdown of accumulated funds in the operating budget to support student programs and division initiatives, and
- use of gift funds to support the newly created position of associate dean/director of diversity and first-gen programs.

At the same time, new base and onetime funding and reallocated base funds will support needs in several priority areas:

- Residential education—Incremental base and rent funds will support the second year of a proposed three-year plan for reorganization and programming enhancements. In 2011/12, Residential Education will continue to improve departmental systems and structures and further implement its new organizational and area models, dividing the leadership and functions of the undergraduate residential campus into three regional areas. Programmatically, Residential Education will focus on further promoting faculty engagement in undergraduate residences through a variety of means, including funding events and programs. Any program enhancements will complement the findings and recommendations of the Study of Undergraduate Education at Stanford and the Residential Education task force jointly appointed by Residential Education and the Vice Provost for Undergraduate Education. This will help ensure full integration into the university in meaningful and sustainable ways.
- Student mental health and well-being—Incremental base funds will allow expansion of the graduate student residence-based Community Associates program from academic-year-only to year-round coverage. They will also support two new positions in the Vaden Health Center: an additional clinical case manager to help address an increased caseload of students with the most difficult and complex mental health issues and a nurse practitioner/physician's assistant to help meet increased medical services caseloads. Onetime funds will support staffing and operations of the Sexual Assault and Relationship Abuse Prevention/Response program.
- Risk and liability reduction—Incremental base funding will support additional staffing in the Bechtel International Center to address the greater workload resulting from an increasing international student and scholar population, increasing immigration compliance

requirements and regulations, and related responsibilities assumed by Bechtel staff.

- Quality of services/operating efficiencies—Student Affairs received incremental base funds to support operations of the Student Services Center, which transferred to the division from Business Affairs in 2010/11, and onetime funds to support the division's initiative to centralize IT services and resources. Student Affairs will also reallocate base funds to enhance summer schedules for 25 staff whose schedules had been reduced due to funding reductions in 2009/10.

Operating for its first full year in 2011/12 will be a new auxiliary operation, managed by Residential Education, that will oversee collection of board income and its dispersal to cover operating and programming expenses in independent, student-run residences on campus, primarily located on the Row. Previously board income from house residents was deposited to and dispersed from external accounts by a third-party vendor; Residential Education assumed this oversight role to help ensure accountability for and reduce potential liabilities related to disbursement and use of funds.

Student Affairs will continue to regularly assess and evaluate programs and operations through a comprehensive plan. These reviews provide the vice provost, his or her leadership team, and unit staff with critical information needed to shape strategic decisions. Tresidder Meeting Services, the Judicial Affairs Office, and the Office of Student Activities and Leadership have most recently completed or initiated external evaluations.

UNDERGRADUATE ADMISSION, FINANCIAL AID, AND VISITOR INFORMATION SERVICES

Emerging from the severe budget downturn, Undergraduate Admission (UGA), Financial Aid (FAO), and Visitor Information Services (VIS) are commencing a strategic outreach plan that will allow them to ramp up a presence worldwide. Undoubtedly, this will augment the ever increasing interest of prospective students and their families in the university. Stanford has benefited from the office's efforts to increase prospective students' understanding of the extraordinary opportunities available to them as undergraduates. Financial aid enhancements and proactive admission outreach resulted in application increases of 20% in 2009, 6.8% in 2010, and 7.3% in 2011, and demand for service continues to grow. In 2010/11 Stanford had the largest number of visitors and applicants in its history, and the most competitive review cycle.

It is imperative that the university continue to provide the highest level of service and the most efficient communications with its constituencies to maintain the momentum. In 2011/12, UGA/FAO/VIS intends to upgrade all outreach and marketing efforts as it continues to strive for first-class service, including refinement of the comprehensive applicant review process, and to deliver strong financial aid support.

The necessary budget cuts made by UGA/FAO/VIS in 2009/10 resulted in almost untenable demands on staff and operations. To address the annual application growth and the infrastructure needs put on hold that year, UGA intends to clearly prioritize and implement initiatives for 2011/12, relying on systematic assessment to shape strategy and decision making. Strategic priorities include the following:

- Conversion of FTE positions from 10-month back to 12-month appointments,
- Addition of headcount in FAO to focus on graduate student issues and serve this increasing student population,
- Addition of more part-time seasonal readers and increase in experienced readers' load per week,
- Reclassification of FAO student awards staff to reflect additional responsibilities proportionate to the 20% increase in financial aid applications,
- Implementation of a new technology portal, in coordination with OOD and SAA, to help shape student outreach and yield by increasing staff efficiency, improving workflow, targeting student interactions, and improving communication with the large alumni volunteer cohort,
- Growth in the alumni interview program nationally and internationally with significant investment in technology infrastructure and support to develop an online training program,
- International joint travel with peer institutions to address Stanford's noticeable absence, and
- Reimplementation of professional development programs at local, regional, and national conferences.

UGA/VIS intends to use budget savings for the following strategic priorities:

- Purchase, install, and set up two new drivers for the new technology portal.

- Update all print marketing collaterals, including diversity pieces, and UGA/FAO/VIS websites.
- At the new Visitor Center, improve acoustics and lighting, provide a tour group audio conferencing system, and purchase an E-Learning online training module for the tour guides.

MAJOR AUXILIARY UNITS

The budget lines for the School of Medicine, the Graduate School of Business (GSB), Humanities & Sciences (H&S), VPUE, and Libraries and Academic Information Resources (SULAIR) include auxiliary revenues and expenses. These auxiliary operations include the Blood Center at the School of Medicine, the Schwab Center of the GSB, HighWire Press and Stanford University Press in SULAIR, Bing Overseas Studies in VPUE, and Stanford in Washington and Bing Nursery School in H&S. These items are separately identified in the schools' consolidated forecasts in Appendix A. Due to their size, HighWire Press and Stanford University Press are also discussed in this chapter. The major independent auxiliaries are Athletics and Residential & Dining Enterprises (R&DE).

ATHLETICS

Like the rest of the university, the Department of Athletics, PE, and Recreation (DAPER) faced significant budget challenges in 2009/10 and 2010/11. While the outlook has improved in 2011/12, the fiscal environment remains challenging. DAPER produced a balanced budget in 2009/10 and is projecting balanced budgets in 2010/11 and 2011/12. Significant incremental revenues are anticipated in 2011/12 to help balance the budget, but zero or minimal increases in most controllable expense lines will also be required.

Projected revenues and expenses for 2011/12 are $68.3 million. DAPER's revenues are largely determined by football ticket sales and will be positively impacted by the new television contract.

There are several key changes on the revenue side over 2010/11 projections. Intercollegiate revenues are increased due to changes in the Pac-12 conference television agreement and the addition of a Pac-12 championship football game. Additionally, DAPER has placed a significant focus on football ticket sales in 2011/12 to capitalize on the success of the football team last season, and revenues in this area are projected to be up significantly. Gifts/endowments are up due to the increased use of funds that recently became unrestricted. University funds are reduced due to the elimination of $2.6 million in one-time funding to help ease budget pressures in 2010/11. On the expense side, compensation expenses are up over the projection for 2010/11 due to several midyear changes in the football coaching staff as well as changes in senior administrative staff. All other expense categories show relatively small increases or decreases as DAPER continues to work to hold expense growth down.

DAPER's financial aid endowment continues to be a huge asset to the department. For several years its payouts significantly overfunded financial aid needs. This allowed the department to work with donors to transfer the surplus to help with operating expenses. However, the additional 15% decline in endowment payouts for 2010/11 combined with continued increases in tuition created financial aid expenses that exceeded the endowment payouts. Despite a modest rebound in the endowment, this problem will continue in 2011/12, and the department projects needing to transfer approximately $2.1 million from operating revenues to balance the financial aid budget. For 2011/12, projected revenues (including this transfer) are $19.8 million and projected expenses are $19.8 million, for a balanced budget. This compares to projected 2010/11 revenues and expenses of $19.1 million.

RESIDENTIAL & DINING ENTERPRISES

Residential & Dining Enterprises (R&DE) projects a break-even auxiliary budget for 2011/12, with revenues and net transfers of $159.7 million. It also plans to use approximately $2 million from reserve funds to pay debt service related to strategic borrowings that will be used to reduce deferred maintenance backlog on its residential and dining facilities.

R&DE's budget and initiatives in 2011/12 will provide incremental funding for continued stewardship of five million square feet of student living and dining space to ensure that these environments remain comfortable, attractive, safe, code compliant, and in a living and learning environment that supports education, recreation, and personal development.

This plan reflects a combined room and board rate increase of 3.5% (4.65% room and 2.0% board). The increase in student payments is necessary to cover regular inflationary impacts on operating costs, including labor, food, expendable materials and supplies. The room and board increase, together with a debt service interest rate reduction, revenue growth, continuous cost efficiency and business optimization efforts, and a planned use of some of R&DE's reserve funds, allow for supplemental funding to be made toward R&DE's asset renewal programs and housing maintenance backlog, as well as increased funding to Residential Education and Graduate Life Office.

R&DE's budget plan will yield a balanced auxiliary budget while managing conservative revenue growth and maintaining previously introduced optimization strategies and budget reductions. It assumes R&DE will continue its efforts toward strategic management of long-term purchasing contracts, reductions in expendable materials and supplies, improved technological business solutions, and partnerships with students on ongoing sustainable energy conservation initiatives.

The budget provides funding for the merit salary increase program for exempt and non-exempt employees, as well as salary increases to bargaining unit employees in accordance with the union contract.

R&DE expects to continue its funding for established Residential Education programs, the Graduate Life Office, and Residential Computing. In addition, 2011/12 is the second year of a three-year plan that includes increased funding to support Residential Education's new program model. Various upgrades to Resident Fellows apartments, arts programming, and technology infrastructure in residences to support academic programs are also included in the Budget Plan.

Many critical asset renewal needs are addressed in the plan, including seismic retrofit needs, American with Disabilities Act upgrades, life safety and code compliance updates. The 2011/12 budget plan also anticipates funding additional new debt service on the Capital Improvement Projects just completed and financed in 2010/11.

R&DE will use $24 million in new debt in 2011/12 to perform work that will help reduce the maintenance backlog. The $1.8 million incremental debt service expense related to this borrowing will be funded by reserves. This additional debt service will bring the total debt service expense in 2011/12 to $44 million.

R&DE's plan for capital projects in 2011/12 include the following:

- Wilbur (Junipero and Okada) Residence Hall safety upgrades and renovations of bathrooms, utilities, and hardscape,
- Row House kitchen replacements,
- Escondido Village apartment heating system replacement,
- Lagunita Residence Hall and Dining Hall replacement of underground utilities and hardscape, and renovation of bathrooms, and
- Planning for a new residence hall building at Manzanita (roughly 122 bed spaces) and the "spruce up" of the existing Manzanita residential and dining facilities.

The year 2011/12 will also be marked by the opening of the Arrillaga Family Dining Commons, bringing the next level of excellence in culinary experiences to Stanford students in support of the university mission. This new facility will create opportunities for operational efficiencies through central production strategies.

HIGHWIRE PRESS

As planned, in 2010/11 HighWire invested in staff and third-party services to continue the migration of its more than 140 publisher clients and more than 1,400 websites to a new technology platform. That investment, self-funded through reserves generated in previous years, will continue through the first few months of 2011/12.

At the same time, HighWire is facing new and significant external competitive threats. With additional internal investment from SULAIR, HighWire is taking steps to position itself for growth in the dynamic world of online publishing and to strengthen its market position. HighWire is supporting its publisher customers in mobile computing applications, the semantic Web, and integration across multiple content types, including non-HighWire-hosted content.

As a result of these technological, operational, and marketing initiatives, HighWire projects operating deficits of $1.8 million in 2010/11 and $0.9 million in 2011/12 after many years of operational surpluses. HighWire projects an ending fund balance of approximately $1.5 million as of August 31, 2012. In subsequent years, HighWire expects to return to a steady state in which modest annual surpluses from operations rebuild reserve levels.

STANFORD UNIVERSITY PRESS

The Press consolidated budget for 2011/12 projects revenue from sales of paper and electronic editions to grow by 2.9% over the anticipated 2010/11 year-end total. Gross margin on sales (the income remaining after deduction of production costs, royalties, and write down) is expected to grow by 4.4%, while overheads will grow by less than 1%. This combination of margin improvement and cost control will reduce the pre-adjustment loss to 11.4% below the anticipated 2010/11 year-end figure. Considering this mix of pressures, top line growth of 2.9% and gross margin growth of 4.4% is aggressive. It is very difficult to predict the exact timing, as the current hybrid paper/electronic model will evolve to become an electronic/paper model, and potentially an electronic-only model.

The Press continues to support its operations with draws from the Press Sustaining Fund. After an anticipated draw of $820,000 in 2010/11, it will use the remaining $364,000 in 2011/12. The Press will then begin drawing funds from its Research Fund and expects to draw $400,000 to support operations in 2011/12, leaving a balance of $2.5 million in the fund.

Driving these numbers is a major upheaval in the marketplace for scholarly, educational, and professional information and a significant change in the underlying business model for disseminating that information -— which together have necessitated a comprehensive overhaul of the workflow of the Press. All of these changes were anticipated in the new five-year plan produced by the Press in the spring of 2010. At the core of that plan were mutually supportive strategies to maximize the output of electronic editions for all market channels — retail, library, and educational — while managing the anticipated downturn in revenue from paper editions.

In the retail space, the e-book platforms that were either just launched or still in development last year are all now loading content. To take advantage of these new revenue streams, the Press has signed distribution agreements with all the leading platforms including Kindle, Apple, Barnes and Noble, and Google. In the library space, where platforms have been a little slower to proliferate, the Press is assessing the potential for the newer entrants to deliver aggregated content cost effectively and will shortly extend the two current agreements with extant library aggregators by the addition of one or two of those new entrants . For the educational space, the Press has launched its own e-reader that allows students to rent electronic files for short or long periods, to buy e-files, and to bundle them with paper files. Press management is also in negotiation with third party course pack providers to license content for the creation of custom textbooks.

On the print side, print runs have been considerably reduced and inventory write down has been accelerated to take account of the cannibalization of paper sales by new electronic sales. These changes will have a negative impact on gross margin and, when taken together with the much lower per-unit revenue generated by electronic editions (which generally command prices 50% or more lower than the paper edition prices), the impact on the bottom line can be significant. Unfortunately, this is further compounded by the need for new workflows to accommodate the need for simultaneous production of both print files and e-files for every book, and by the cost of file conversion to meet the requirements of the multitude of e-platforms: hence the capping of overheads at 2010/11 levels.

Finally, with the print model in decline, the Press is launching two new strategies. The first migrates printing as fast as possible from the legacy model of offset printing of bulk stock to a model in which a small initial printing of a new title is produced, with the title then moving quickly to a print on demand (POD) model. The second allows both web-based retailers and overseas distribution partners to fill orders with their own POD editions, allowing them to deliver titles to almost all territories in 24 hours. In other words, books will be "born POD" as well as printed in bulk.

Returning to the 2011/12 numbers in the first paragraph, and taking account of this mix of pressures, even top line growth of 2.9% and GM growth of 4.4% is aggressive. And the rate at which the current hybrid paper/electronic model will flip to an electronic/paper model— and potentially an electronic-only model – is completely unpredictable.