

**The
Stanford University
Budget Plan
2000/01**

**Submitted for Action to the
Board of Trustees
June 8-9, 2000**

This publication can also be found on the World Wide Web at:
<http://www.stanford.edu/dept/pres-provost/budget/plans/plan01.html>

Executive Summary

To the Board of Trustees:

I am pleased to submit the 2000/01 Stanford University Budget Plan for your approval.

This Budget Plan is presented in two parts. The first is the Consolidated Budget for Operations, which reflects all of Stanford's anticipated non-capital revenue and expense. The Consolidated Budget for Operations projects a surplus of \$27.3 million on net revenues after transfers of \$1,799.3 million and expenditures of \$1,772.0 million. This very modest surplus (1.5% of expenditures) results primarily from an excess of restricted revenue over expense.

The second part of the Plan is the Capital Budget. The budget calls for \$273.9 million in capital expenditures next year supporting a range of initiatives, including new graduate housing, renovations to several Medical School buildings, initial work on the Clark Center, and the strengthening of the last of the unreinforced masonry buildings. The Capital Budget is set in the context of a three-year plan, running through 2002/03.

Stanford Hospital and Clinics (SHC), a separate corporation, is not included in the Budget Plan. However, SHC financial results will be consolidated into Stanford's financial statements.

KEY CHALLENGES ADDRESSED IN THE 2000/01 BUDGET PLAN

We have made great progress on many fronts under President Casper's leadership. Our initiatives in undergraduate education have become the envy of many. The campus has been substantially renovated and rebuilt during the last eight years. Many impressive new facilities support one of the premier research programs in the world, and research volume, particularly in the biomedical sciences, continues to grow. We are investing heavily in faculty, both at the junior and senior levels. We are providing more financial aid than ever to ensure Stanford's affordability to the best students. These successes have been achieved in large part through the generosity of our friends, strong investment performance, and prudent management.

While there have been considerable achievements, we face many challenges. The following discussion identifies several of our most critical issues and how they affect next year's budget.

- 1. Cost Pressures Driven by the Local Economy** – Perhaps our most pressing challenge is to address the escalating expenditures brought upon us by the success of Silicon Valley. While Stanford has been a contributor to and a beneficiary of the Valley's growth, the local economy is driving wages and housing costs to the highest levels in the country. Consequently, in building the budget for next year our top priority has been to address the compensation and housing issues through the following actions:

- After several years of below market staff compensation programs, our merit based program for 2000/01 will be stronger and will focus on providing funds for market adjustments and retention. This increase will help considerably in addressing the compensation problem. However, it will absorb a significant share of the flexibility in the budget for 2000/01. In the general funds portion of the Consolidated Budget for Operations, for example, we anticipate that almost 42% of the growth will be dedicated to staff and faculty compensation increases.
- We will be strengthening our support for faculty and graduate student housing in several respects. On the faculty side the Committee on Faculty Housing Policy, chaired by Dean Orr, has proposed enhancements to our housing assistance programs and an expanded zero interest loan program. Over the next several years we will support these programs through income from the research park, which the Trustees have already dedicated to housing costs, and through school and departmental funds. In the longer run, however, there may be additional cost implications. In the graduate housing area we are increasing the University's subsidy program from \$3.2 million to approximately \$5.0 million. These funds will cover subsidies for both on-campus housing in the new Escondido Village studio apartments and off-campus facilities, increasing the number of students receiving subsidies from 600 to almost 1,000.
- In an effort to provide more funding for graduate students we are increasing stipends by 6.0%. Further, in the 2001/02 budget we plan to reduce the time to achieve TGR status from 10.5 quarters of residency to 9. This will reduce by about 15% the total tuition paid by a PhD student during the term of his or her graduate career.

2. Undergraduate Education and Financial Aid – Although we have implemented many enhancements to the undergraduate education program, the full realization of our plans is not yet complete. The budget for the programs directed by the Vice Provost for Undergraduate Education will grow by 10% next year from \$15.7 million to \$17.3 million. Much of the growth is for independent study and research that will expand opportunities for advanced undergraduate students to work with faculty. We will also continue to increase support for Stanford Introductory Studies with the new Speaking Across the Curriculum program and with additional support for Sophomore Seminars and Dialogues. The 2000/01 budget for undergraduate education will receive \$1.0 million in incremental base general funds, the third of five years of incremental \$1.0 million commitments. These programs are currently funded 60% with unrestricted general funds and 40% with restricted funds. However, with the expectation of strong fund raising support over the next several years, we anticipate that by 2004/05 the programs will be funded 60% with restricted funds and 40% by general unrestricted funds.

Next year's budget also includes major enhancements to Stanford's financial aid program, particularly for middle income families. In February, the Trustees approved \$3.8 million in incremental financial aid to reduce the amount students will be expected to borrow and to increase support for middle income students.

3. Academic and Administrative Infrastructure – Supporting the operations of a major research university requires that we not only maintain our existing infrastructure but that we invest incremental funds in it. Next year's budget does so in several respects:

- The School of Humanities and Sciences (H&S) has a structural deficit of approximately \$4.0 million in its core unrestricted budget due to expansion of faculty positions without funding. So, while H&S is expected to continue to show a surplus in its overall consolidated budget, the excess revenue and resulting growth in fund balances are restricted at the department and faculty level. We will allocate \$1.0 million in incremental base budget funding to assist H&S as it works to eliminate the deficit in its unrestricted budget.
- For the past six years we have been systematically replacing and expanding our administrative computing systems. The first phase of the Core Financials system, comprised principally of a new general ledger, was completed earlier this year. Over the next several years we will be replacing the student information system, the human resources system, and implementing additional modules of the financial system. We are adding \$2.5 million in base budget general funds in 2000/01 as part of the overall funding strategy for administrative systems. Next year's capital budget includes \$31.3 million for these projects.

4. Research Support – The Budget Plan provides incremental support to Stanford's research programs in several respects. On the operating side there is additional funding for the Jasper Ridge Biological Preserve, startup funds for the Institute for Biomedical Engineering, and planning funds for the programs of the Clark Center. In addition, the budget will fund increases in staffing in the research compliance areas. In the Capital Budget the Center for Clinical Sciences Research will experience its first full year of operation, and the first phase of the renovation of the Grant/Lane/Alway/Edwards complex at the Medical School will be undertaken.

5. Contingency Reserve – The Budget Plan provides a \$10.0 million unrestricted general funds reserve to provide a buffer against future income shortfalls and as a source of funds for one-time expense. This has been an important budgeting priority since the mid-90s, and I am pleased to continue it.

CONSOLIDATED BUDGET FOR OPERATIONS

The table on page vii shows the principal income and expenditure line items for 2000/01 and compares those numbers to the projected actuals for the current year. These figures include the incremental costs for the programs and initiatives noted above. Some highlights on both income and expense follow.

Income

Student Income – This figure is the sum of all tuition, room and board income less student aid. The modest growth of 2.7% over the projected 1999/00 actuals is the result of three factors:

1. There is a 5.3% growth in tuition revenues resulting from the tuition increases approved in February and a slight reduction in the number of entering undergraduates.
2. Room and board income will grow by 6.4%, the result of a 1.9% increase in standard room and board rates, an increase in on-campus graduate housing, and growth in off-campus graduate student subsidized housing.
3. Student aid expense, which is netted against income, will grow by 16.9% due principally to changes in policy approved by the Board in February 2000.

Sponsored Research – The 5.0% growth in sponsored research will occur principally in the Medical School, which is expecting an 8.5% increase. Non-medical research volume is budgeted to grow by 2.5%.

Expendable Gifts – The figure of \$87.0 million includes only those non-capital gifts available for current expenditure. We expect this amount to remain flat in the upcoming year.

Investment Income – This category consists primarily of endowment income and income from the expendable funds pool (EFP). Endowment income is expected to grow by 9.7% based on our estimate of market returns and a target payout rate of 5.2%. Income from the EFP is anticipated to be lower than in 1999/00. This is because we expect to earn 6.0% in the current year, the maximum return allowed to flow to the budget under Trustee guidelines. For 2000/01 we are budgeting 5.5%.

Expense

Academic and Staff Salaries – For the past several years Stanford's salary program, particularly on the staff side, has fallen behind the Silicon Valley market where we must compete for many staff. As noted above, this Budget Plan includes a concerted effort to address that problem by increasing our cost base by 3.5%, by adding a broad based market/equity/retention component, and by including a targeted allocation for job groups lagging the market significantly. On the faculty side we compete in national and international markets and anticipate maintaining a strong salary position with a 3.5% basic program and with some additional funding to address equity and retention issues.

Auxiliary Activity – The majority of these expenses are incurred by Medical School Professional Services, Student Housing and Dining Services, the Alumni Association, the Department of Athletics, and the Stanford University Press.

Other Expenses – This line item is comprised principally of maintenance costs, materials and supplies, travel, utilities, library materials, and subcontracted professional services.

CAPITAL BUDGET

The Capital Budget anticipates \$273.9 million for capital construction expenditures in 2000/01. The following are the principal elements of the Capital Budget:

- **Projects in Design and Construction** – This category totals \$194.1 million and includes major work on the Clark Center (\$68.1 million), initial work on the

PROJECTED CONSOLIDATED BUDGET FOR OPERATIONS, 2000/01

(in millions of dollars)

1998/99 Actuals	1999/00 Projected Actuals		2000/01 Forecast Current Funds	2000/01 vs 1999/00 Projected
Revenues and Other Additions				
278.3	294.2	Total Student Income	302.2	2.7%
633.6	677.2	Total Sponsored Research Support	710.7	5.0%
97.4	87.0	Expendable Gifts	87.0	
365.2	390.3	Total Investment Income	414.4	6.2%
324.4	355.5	Total Other Income	365.1	2.7%
1,698.9	1,804.2	Total Revenues	1,879.3	4.2%
(78.5)	(80.8)	Transfers and Adjustments	(80.0)	(1.0%)
1,620.4	1,723.4	Net Revenues after Transfers	1,799.3	4.4%
Expenditures				
647.9	708.0	Academic & Staff Salaries and Benefits	753.7	6.5%
170.7	186.8	SLAC	197.7	5.8%
209.2	219.5	Auxiliary Activity	229.7	4.7%
553.8	570.7	Other Expenses	590.9	3.5%
1,581.6	1,685.0	Total Expenditures	1,772.0	5.2%
38.8	38.4	Surplus/Deficit	27.3	(28.8%)

new Chemistry/Biology building (\$12.0 million), half of the work on the new Mechanical Engineering building (\$15.7 million), completion of the first phase of new Graduate Student Housing (\$17.5 million), and the commencement of work on the Grant/Alway/Lane/Edwards project in the Medical School (\$25.0 million).

- **Forecasted Projects** – There are \$47.2 million of projects anticipated to be presented to the Board during 2000/01, primarily renovation and student housing.
- **Infrastructure** – The Capital Budget contains \$53.4 million in infrastructure projects, approximately two-thirds is for replacement of administrative systems. The rest is split between the renovation and expansion of utility systems and the Stanford Infrastructure Program, which includes landscaping, transportation, and parking projects.

The Capital Budget affects the Consolidated Budget for Operations by adding debt service costs and the costs of operating and maintaining the facilities. Incremental debt service resulting from the Capital Budget totals \$3.6 million for academic, auxiliaries, and service center projects coming on line in 2000/01. By Trustee policy, internal debt service repayment on capital projects (exclusive of SLAC, auxiliaries, and service centers) may not exceed 5.0% of unrestricted funds. For 2000/01 this figure is projected to be 3.0%. Operations and maintenance costs on new facilities will add \$2.9 million to next year's budget.

REQUESTED APPROVAL AND ORGANIZATION OF THIS DOCUMENT

This Budget Plan provides a university-level perspective on Stanford's programmatic and financial plans for 2000/01. We seek approval of the planning directions, the principal assumptions, and the high level supporting budgets contained here. As the year progresses, we will make periodic reports, as necessary, on the progress of actual expenditures against the budget. In addition, we will bring forward individual capital projects for approval under normal Trustee guidelines.

This document is divided into three sections and two appendices. Section 1 describes the financial elements of the Plan, including detail on the Consolidated Budget for Operations and the projected Statement of Activities for 2000/01. Section 2 addresses program issues in the academic areas of the University. Section 3 contains details on the Capital Budget for 2000/01 and the three year capital plan. The appendices include budgets for the major academic units and supplementary financial information.

CONCLUSION

I want to thank the Provost's staff, especially Vice Provost Tim Warner and his staff, for their skill in explaining the complexities of the Stanford budget and patience with me when I tried to do the impossible. I also want to thank the Deans, Associate Deans, the Unit Directors, and their staff for helping me understand the challenges that the Schools and units are facing. While I certainly wish we could have responded more fully to the visions and requests of the units, I do feel that given the resources available, we have deployed them all. I know that the next Provost will benefit from the outstanding support of the Provost's staff as she or he tackles the many ongoing budgetary challenges.

Looking forward, we face several major challenges. We expect that salaries for both faculty and staff will continue to be under significant pressure due to cost-of-living increases in the region. Housing and the cost of housing programs are expected to grow considerably. The necessity for an undergraduate campaign is critical to partially relieve the shortfall in general funds, to provide permanent support for Stanford Introductory Studies, and to increase the endowment support in the university budget. With the help of the Trustees, our alumni, and many friends, we will complete a campaign that will help ensure that Stanford's excellence in teaching and research will continue.

John L. Hennessy
Provost
June, 2000

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