

**THE  
STANFORD UNIVERSITY  
BUDGET PLAN  
2001/02**

**SUBMITTED FOR ACTION TO THE  
BOARD OF TRUSTEES  
JUNE 14-15, 2001**

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<http://www.stanford.edu/dept/pres-provost/budget/plans/plan02.html>

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# EXECUTIVE SUMMARY

To the Board of Trustees:

I am pleased to submit the 2001/02 Stanford University Budget Plan for your approval. This budget reflects our strong financial condition, addresses a number of critical priorities, and establishes a sound basis to enhance the excellence of Stanford in the future.

In this first year of the new University administration, President Hennessy and I have worked to build upon the successes of the immediate past while initiating our own assessment of Stanford's future. Although we face the challenges of a slowing investment climate and an unforgiving market for academic medical centers, we have much to celebrate:

- The spectacular gift of \$400 million from the Hewlett Foundation, of which \$300 million will be directed to the School of Humanities and Sciences (H&S), will provide the School with the capacity to address its financial shortfalls and to position it for strategic programmatic expansion.
- The Stanford Bio-X Program, a bold interdisciplinary initiative that spans the Schools of Engineering, Medicine, and Humanities & Sciences, positions Stanford to become the world leader in the fields of bioengineering, biomedicine, and biosciences. Gifts will support the program and the construction of the Clark Center, which will serve as a hub to promote interdisciplinary research across the campus.
- Although local housing prices continue to challenge our faculty recruiting efforts, hiring the best faculty remains our highest priority. Thanks to an enhanced housing program, we are pleased to report that we continue to attract the best faculty in the world to Stanford.
- The Hewlett Foundation gift has accelerated progress on the Campaign for Undergraduate Education. This year we have finished implementing Stanford Introductory Studies, and we are moving forward with the planned enhancements to the Undergraduate Research Program, which provides support for undergraduate research and honors. We believe that Stanford is now offering one of the finest undergraduate educations in the nation.
- The Stanford Graduate Fellowship Program is now fully implemented and supports 345 graduate students in science, engineering, and the social sciences. The program is supported by \$291 million in endowment funds raised over the past five years.

In this context we have launched a broad scale assessment of Stanford's most important needs looking ahead to the next ten years. While this process will not conclude for several months, it has helped crystallize many of our most critical challenges. In developing the budget for 2001/02 we have already begun to address some of these

issues. The following discussion identifies those issues—as well as others that emerged in the regular budgeting process this year—and describes our response.

- **HOUSING** – Despite a slowdown in the local economy, the mid-Peninsula remains an extremely expensive place to live. The impact of this affects every part of the Stanford community: students, faculty, and staff. In November 2000, I announced significant enhancements to our faculty housing programs. These improvements provide a variety of additional subsidies enabling faculty to purchase a home in the area more easily. The cost of our faculty housing assistance programs will grow in 2001/02 by \$2.7 million, up from \$13.9 million in 2000/01. During this calendar year, the Stanford West apartment project will be completed, adding 628 new units of faculty and staff rental housing. We have also continued our program to build new graduate student housing, while providing support for students who cannot be housed on campus. Three years ago we began a modest program of subsidies for off campus rental properties. In 2001/02, we anticipate supporting 1,446 graduate students at a cost of almost \$11 million for on-campus and off-campus subsidized housing. The Capital Plan includes substantial additional undergraduate and graduate student housing projects.
- **COMPENSATION** – For the past several years Stanford’s aggregate staff salary program has lagged salary growth in the Silicon Valley employment market where we must compete for staff employees. We have had trouble maintaining our historical mid-market position, and our competitive position has deteriorated. In many job groups, and particularly in information technology, finance, and administrative support positions, we have lost considerable ground to the local market. The salary program implemented in the current year, 2000/01, took a big step toward addressing this problem, and we have closed the gap in our salary position in some areas. In this Budget Plan we are recommending a second year of a strong staff salary program aimed at further improving our market position. On the faculty side, our challenge is not so much the market position for salary. Rather, it is the housing issue, and we believe our new programs will make a substantial impact on this problem.
- **ENERGY COSTS** – Stanford’s budgeted energy costs for the current year, 2000/01, were \$45 million. We expect these costs to increase by \$10 million by the end of the fiscal year, August 31, 2001. The budget for 2001/02 is expected to be \$63 million, primarily representing additional anticipated price increases for natural gas and electricity.
- **FINANCIAL AID** – Stanford has made significant enhancements in its undergraduate financial aid program in recent years. Over the past three years we have increased the financial aid budget by \$8.1 million to reduce student borrowing and to enhance support for middle-income families and President’s Scholars. In this plan we are continuing our financial aid program improvements by lowering the self help expectation for a significant portion of our students, at a cost of \$905,000.
- **ALLOCATION OF GENERAL FUNDS** – About \$500 million of Stanford’s \$2 billion budget is sufficiently unrestricted or undesignated to be under the direct control of the Provost. These so-called “General Funds” can be used for any university purpose. Within this segment of the budget we allocated \$19.3 million in incremental base

budget funding to support new activities and to provide continuing funding for programs supported on one-time money. Of the \$19.3 million, \$8.5 million went to support academic unit initiatives, including \$3.4 million for the School of Humanities and Sciences. There is \$3.2 million of support for incremental debt service, operations and maintenance, and utilities on new buildings, notably for the Mechanical Engineering building and the Frances C. Arrillaga Alumni Center. We have made a significant investment in the Office of Development and the Alumni Association of \$2.2 million to enhance our fundraising capacity and to strengthen our ties to the alumni. We allocated approximately \$1.8 million to continue the enhancements to our undergraduate education programs, and another \$1 million to support the academic computing infrastructure.

- UNIVERSITY RESERVE – In previous years, the Budget Plan has included a \$10 million unrestricted general funds reserve to buffer against future income shortfalls. The 2001/02 budget does not include this reserve, but instead provides for \$10 million in funding for one-time expenses.

## COMPONENTS OF THE 2001/02 BUDGET PLAN

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 \$92.8 million on net revenues after transfers of \$2,030.7 million and expenses of \$1,937.9 million. This modest surplus (4.8% of expenses) results primarily from an excess of restricted revenue over expense.

The second part of the plan is the Capital Plan and Capital Budget. The budget calls for \$316 million in capital expenditures next year supporting a range of initiatives. The 2001/02 Capital Budget is set in the context of a three year Capital Plan, running through 2003/04.

The budget for Stanford Hospital and Clinics (SHC), a separate corporation, is not included in this Budget Plan.

## CONSOLIDATED BUDGET FOR OPERATIONS

The table on page vi shows the principal revenue and expense line items for 2001/02 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.

### Revenue

STUDENT INCOME – This figure is the sum of all tuition and room and board income, less student aid. The 4.4% growth rate over the projected year-end actuals results from a 6% increase in general tuition, a 3.4% increase in room and board, and a 10.5% increase in student aid.

SPONSORED RESEARCH – The 4.2% growth in sponsored research will occur principally in the Medical School, which is expecting a 6.2% increase. Non-medical research

**PROJECTED CONSOLIDATED BUDGET FOR OPERATIONS, 2001/02**

(in millions of dollars)

1999/00 Actuals	2000/01 Projected Year-End		2001/02 Projected Current Funds
		<b>Revenues and Other Additions</b>	
279.8	293.3	Student Income	306.1
674.4	727.0	Sponsored Research Support	757.8
156.9	161.6	Health Care Services	164.3
113.2	116.6	Expendable Gifts in Support of Operations	120.0
435.6	471.3	Investment Income	534.1
187.5	203.8	Special Program Fees and Other Income	224.4
1,847.4	1,973.6	<b>Total Revenues</b>	<b>2,106.7</b>
(103.8)	(81.9)	<b>Transfers and Other Adjustments</b>	<b>(76.0)</b>
1,743.6	1,891.7	<b>Net Revenues after Transfers</b>	<b>2,030.7</b>
		<b>Expenses</b>	
871.3	973.9	Salaries and Benefits	1,060.7
179.9	203.9	SLAC	208.5
557.0	607.2	Institutional Support/Other Operating Expenses	668.7
1,608.2	1,785.0	<b>Total Expenses</b>	<b>1,937.9</b>
135.4	106.7	<b>Surplus/(Deficit)</b>	<b>92.8</b>

volume is budgeted to grow by 2.5%. The 2001/02 Indirect Cost Rate is budgeted at 57%, reflecting the second year of our pre-determined agreement with the federal government.

**EXPENDABLE GIFTS** – The figure of \$120 million includes only those non-capital gifts available for current expenses. This figure represents a conservative 3% increase.

**INVESTMENT INCOME** – This category consists of income paid out to operations from the endowment and the Expendable Funds Pool (EFP). Income payout from the endowment is expected to grow next year by 12%. While this may not seem possible given that the value of the endowment has dropped by about 8% during 2000/01, the growth in income from the endowment occurs as a result of the delaying effect provided by our payout rate smoothing formula. Even with the substantial 12% increase, the projected payout rate for 2001/02 is 4.68% versus a target payout rate of 5.15%. If the market continues to decline, we will experience a significantly slower growth in endowment income in 2002/03 and beyond.

**Expense**

**SALARIES** – We anticipate an increase in salary expense of 8.9% over the projected year-end actuals. In the faculty marketplace we compete nationally and internationally and anticipate maintaining a strong salary position with a 4.5% basic program and with some targeted funding to address equity and retention issues. We are also budgeting a

1.5% increase in academic staff, down from the 2% annual growth rate of recent years. On the staff side we are planning a second year of aggressive efforts to increase our competitive salary position with the local market. The staff salary program for 2001/02 includes growth of 4% in the cost base and an additional 2% for a broad-based market/equity/retention component. Staff growth is expected to be 2.5%, down from the 3.4% average annual growth over the past five years.

**INSTITUTIONAL SUPPORT AND OTHER EXPENSES** – These line items are comprised principally of operations and maintenance (O&M) costs, utilities, materials and supplies, travel, library materials, subcontracts, and professional services. We are budgeting a growth of 10.1% for these items, a rate consistent with growth in recent years.

## **CAPITAL BUDGET AND PLAN**

The Capital Budget and Plan represents our intentions for new construction and renovation, after careful consideration of the following three constraints:

- Square footage: allocation of square footage under the General Use Permit (GUP);
- Project funding: allocation of University debt, use of institutional reserves, receipt of new gift funds; and
- Construction capacity: capacity for construction management at Stanford.

We are reasonably certain that projects included in the three year plan can be accommodated within our square footage and construction capacity requirements. However, many of the projects assume substantial amounts of new gift funds. These projects will only move forward when the fundraising goal is met with gifts in hand.

### **Capital Budget, 2001/02**

This budget includes capital expenditures for the one year period on all active projects. Many of these projects will span more than one year. The Capital Budget represents both committed and planned projects totaling \$316 million, as follows:

- \$186 million for committed projects that are currently in Design & Construction;
- \$37 million for Forecasted Projects that will begin a feasibility review; and
- \$93 million for Infrastructure Projects & Programs.

The 2001/02 Consolidated Budget for Operations includes incremental internal debt service and operations and maintenance expenses for projects completing in 2000/01 and for projects completed in 1999/00 that were operational for less than twelve months. The projected impact of the additional internal debt service and operations and maintenance expenses is \$3.6 million and \$1 million, respectively.

### **Capital Plan, 2001/02 – 2003/04**

The three year plan presents currently active projects as well as those anticipated to be presented to the Board of Trustees for approval prior to year-end 2003/04. Most of these projects are multi-year efforts and are scheduled to be completed by the end of 2007/08. The three year plan totals \$1.6 billion and will be funded from gifts of \$904 million, debt of \$360 million, current funds of \$218 million, and federal funds of \$115

million from the Department of Energy for Stanford Linear Accelerator Center (SLAC) construction projects.

The three year plan includes:

- \$444 million for committed projects, currently in Design & Construction;
- \$933 million for Forecasted Projects as follows: \$268 million for construction projects anticipated to be presented to the Trustees for approval in 2001/02; and \$665 million for construction projects forecast to be initiated in 2002/03 and 2003/04; and
- \$220 million for Infrastructure Projects and Programs as follows: \$49 million for committed projects currently active, \$78 million for infrastructure programs anticipated for 2001/02; and \$93 million for programs forecast to be initiated in 2003/04.

At plan completion, incremental annual internal debt service is expected to be \$29.4 million, of which \$13.5 million will be serviced by auxiliary or service center activities and \$15.9 million will be paid for by unrestricted funds. Incremental O&M costs are expected to total \$21.9 million per year, of which \$19.3 million will be paid for by unrestricted funds.

## **REQUESTED APPROVAL AND ORGANIZATION OF THIS DOCUMENT**

This Budget Plan provides a university-level perspective on Stanford's programmatic and financial plans for 2001/02. We seek approval of the planning directions, the principal assumptions, and the high level supporting budgets contained here. As the year unfolds, we will make periodic reports, as necessary, 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 is divided into three sections and two appendices. Section 1 describes the financial elements of the plan, including details on the Consolidated Budget for Operations and the projected Statement of Activities for 2001/02. Section 2 addresses program issues in the academic areas of the University. Section 3 contains details on the Capital Plan for 2001/02 – 2003/04 and the Capital Budget for 2001/02. The Appendices include budgets for the major academic units and supplementary financial information.

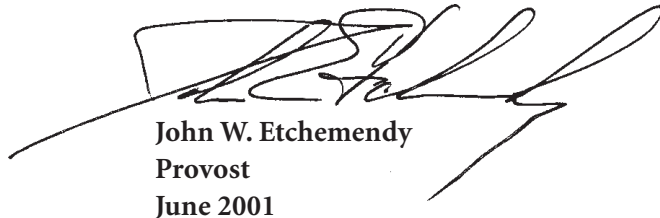
## **CONCLUSION**

The budgeting and capital planning processes this year have been unusually difficult and time consuming for all those involved, in part because of the necessity of initiating a new provost to the process, but also for more substantive reasons. In constructing the budget, I asked the Budget Group (Keith Baker, Susan Calandra, Michael Hindery, Charles Kruger, Dana Shelley, Bob Simoni, Barton Thompson, and Tim Warner) to help me review the budget requests of all units at Stanford, rather than only administrative units, as had been the practice in the past. This group of faculty and senior staff measured a seemingly endless series of proposals against a long-range forecast that became a moving target as energy costs soared and the Nasdaq fell. I am deeply grateful for the long hours and weekends that the Budget Group devoted to this

process. The resulting Budget Plan represents a more thoughtful and measured allocation of the University's financial resources thanks to their careful effort.

The capital planning process was even more challenging, due to new constraints imposed, on the one hand, by the Community Plan and General Use Permit passed by Santa Clara County in December and, on the other, by the need to reduce our reliance on debt as a source of capital funding. The Capital Planning team (Chris Christofferson, Megan Davis, Stephanie Kalfayan, David Neuman, Bob Reidy, Lisa Sullivan, Langston Trigg, and Tim Warner) who oversaw this process had to balance the many new requirements and restrictions against the ambitious plans and undeniable needs of the University's many units. Over the course of several months, the team drafted seven successive versions of the plan before arriving at the one presented here. They too spent many long hours and weekends developing a responsible plan that should allow Stanford to flourish academically, address the student housing crisis, and live within the severe new constraints that will shape the capital planning process into the future. The University is indebted to them for these efforts.

Finally, I would like personally to thank Tim Warner, Vice Provost for Budget and Auxiliaries Management, Bob Reidy, Vice Provost for Land and Buildings, and their extremely capable senior staffs, for bringing me up to speed on the complexities of budgeting and capital planning for an organization the scale and scope of Stanford University.



**John W. Etchemendy**  
Provost  
June 2001



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