

STANFORD UNIVERSITY

BUDGET PLAN 2009/10

This Budget Plan was approved by the Stanford University Board of Trustees June 11, 2009. Distribution of this document is made in the interest of greater understanding of the University's Budget and the processes through which it is annually determined.

This publication can also be found at:

<http://www.stanford.edu/dept/pres-provost/budget/plans/plan10.html>

EXECUTIVE SUMMARY

TO THE BOARD OF TRUSTEES:

The global economic downturn has led to one of the most challenging budget years for Stanford University in recent memory. As a consequence, a great deal of effort and care has gone into preparing both the Budget and the Capital Plan for 2009/10. Difficult choices were made and even more difficult actions initiated to carry out those choices. Despite many painful adjustments, however, I remain confident that Stanford will maintain its leadership position among the great universities in the world.

This document presents Stanford's 2009/10 Budget Plan for Trustee approval. The Budget Plan has two parts. The first is the Consolidated Budget for Operations, which includes all of Stanford's anticipated operating revenue and expense for next year. The second is the Capital Budget, which is set in the context of a multi-year Capital Plan.¹

Some highlights of the Budget Plan:

- The Consolidated Budget for Operations projects a surplus of \$38.6 million on \$3.72 billion of revenues, \$3.59 billion in expenditures, and \$92.2 million in transfers. Revenues are expected to drop by 0.4% over the projected 2008/09 year-end results. This is due principally to a 16% reduction in investment income offset by a projected 10% increase in sponsored research funding and a 6% increase in student income. Expenses are up 3.3% due to increased sponsored research activity, financial aid, and benefits costs.
- The Consolidated Budget includes \$863.3 million in general funds, of which \$152.0 million flow to the Graduate School of Business, the School of Medicine, and the Continuing Studies and Summer Session Programs in accordance with previously agreed-upon formulas. After transfers and other adjustments, there remains \$703.4 million in general funds to be allocated directly by the provost. Non-formula budget units have taken \$79.5 million in base budget reductions, yielding a \$40.4 million budgeted surplus for 2009/10 and a projected balanced budget in 2010/11. The 2009/10 surplus will be used to provide bridging funds to those units needing two years to fully implement their budget reductions.
- The Capital Budget calls for \$646.7 million in expenditures in 2009/10. These expenditures are in support of a three-year Capital Plan that, if fully completed, will require approximately \$1.8 billion in total project expenditures. The Capital Plan has been reduced from last year's approximately \$2.8 billion plan by delaying or suspending a number of projects. Principal expenditures in 2009/10 will be directed toward:
 - ◆ The Knight Management Center and associated parking structure
 - ◆ The Lorry I. Lokey Stem Cell Research Building
 - ◆ The Jen-Hsun Huang Engineering Center
 - ◆ The Center for Nanoscale Science and Technology

¹ The budgets for the Stanford Hospital and Clinics (SHC) and the Lucile Packard Children's Hospital at Stanford (LPCH), both separate corporations, are not included in this Budget Plan.

- ◆ The Li Ka Shing Center for Learning and Knowledge
 - ◆ The East Campus Dining Commons
 - ◆ Law School Clinics and Faculty Office Building
 - ◆ The Bing Concert Hall
- This Budget Plan also presents the projected 2009/10 results in a format consistent with Generally Accepted Accounting Principles, as reported in the university's annual financial report. The projected Statement of Activities shows a \$25.6 million deficit.

STRATEGIC CONTEXT

During the past year we have had to respond to a challenging and rapidly evolving set of financial circumstances. Investment income had grown from 20% of our consolidated revenue in 2000 to 29% at its peak a year ago, moving from our third largest revenue source to our largest and providing over a billion dollars in revenue in the current fiscal year. During 2008/09 the value of Stanford's endowment is projected to drop by 30%, the largest single year decline in our history. As a result, we now anticipate absorbing a \$300 million reduction in revenue as we adjust to this decline over the next few years.

To address this problem, we are now engaged in the largest budget adjustment effort in Stanford's recent history. In developing our response, we were guided by several principles: 1) give wide latitude and support to individual schools and administrative units to find the best way to meet their budget challenges; 2) encourage structural and strategic changes to achieve budget reductions within the units; 3) adjust to the new baseline revenue projections as quickly as possible, accelerating Stanford's return to a period of stability and growth; 4) protect our financial aid programs, for both undergraduate and graduate students, to the extent possible; 5) make sufficient reductions so that, under reasonable assumptions, we can forecast balanced budgets for the next several years.

ACTIONS

- For many years Stanford has used a smoothing formula to protect the budget against fluctuations in the market value of the endowment. Under the provisions of this formula, it would take five to six years before the budget fully absorbed the impact of a 30% drop in endowment value. The most significant action we took in the budgeting process was to suspend the endowment smoothing formula for the next two years. Instead, we plan to be more aggressive in reducing the payout from the endowment than the smoothing rule would dictate. Our goal is to absorb most of the impact of the endowment decline in two years, placing us in a better position for future growth. We will reduce endowment payout to the budget by 10% in 2009/10 and by an additional 15% in 2010/11. The smoothing rule would yield reductions of about 7.5% in each of these years.
- The general funds component of the consolidated budget was faced with significant shortfalls due to two factors: the decline in endowment payout and the loss of income from the Tier 1 Buffer, a pool of unrestricted endowment funds that serve to buffer investment losses in the Expendable Funds Pool. Our projections indicated the need to identify approximately \$150 million in base budget adjustments over the next three years to balance our general funds budget and place the university in a strong position for the future.
- The salary increase program for faculty and staff for 2009/10 was eliminated, with some minor exceptions for faculty promotions and other circumstances. This generated general funds savings of \$16.5 million for 2009/10, growing to \$17.9 million in 2011/12.

- Several additional central actions were taken to increase general funds revenue, including the implementation of a health services fee to all students; the reduction of the base budget operating reserve from \$20 million to \$15 million; and reducing support for small facilities and lab renovations from \$12 million to \$10 million. These actions will generate or free up \$18.8 million in base revenues in 2009/10, growing to \$20.4 million by 2011/12.
- We identified \$79.5 million in general funds base budget cuts in the schools and administrative units, approximately 15% of the total general funds allocations to these units. These reductions will grow to over \$90 million in base general funds savings by 2011/12.
- We have delayed about \$1.1 billion of last year's ambitious \$2.8 billion capital plan in order to save on debt service and operating costs, and to ease pressure on fundraising and university reserves. This will reduce anticipated general funds costs by \$4.8 million in 2009/10, increasing to \$9.8 million in savings by 2011/12.
- Stanford has maintained its undergraduate financial aid program. Stanford-funded aid is projected to increase next year by 7.9%, to \$111.5 million. Over the past five years, financial aid to undergraduates has almost doubled.

RESULTS

- We project balanced budgets for the next three years, assuming conservative growth in salaries, endowment returns, tuition, and research. The future could obviously bring a further worsening of the economic forecast, but our goal has been to develop plans that will avoid the need for additional reductions, particularly in the general funds budget.
- The general funds cuts, combined with reductions in the formula and auxiliary units, will unfortunately result in approximately 350 staff layoffs and the freezing of 49 faculty searches.
- Most units receiving general funds allocations took cuts of 15% and plan to implement those cuts prior to entering the 2009/10 fiscal year. There will be some modest amount remaining to be done during the course of the 2009/10 year.
- An analysis of the general funds reductions reveals the following:
 - ◆ By expense type: About 50% came from non-salary reductions; 39% from staff reductions; 5% from unfilled, but budgeted, faculty positions; and the remaining 6% from lecturers, other teaching, and professional services.
 - ◆ By function: 57% came from general administration, both centrally and within the schools; 13% in direct teaching and research; 13% in information technology; and 7% in outreach and development.
- The schools are affected by revenue reductions in different ways, depending on how much they rely on endowment and gift support:
 - ◆ Almost 50% of the Business School's budget is supported by gifts and endowment, and as a result the school has had to make significant cuts in administrative and support staff. In January the school cut 12% of its staff and eliminated unfilled positions and most contract and fixed-term jobs.
 - ◆ The School of Education, with 25% of its budget from endowment, is slowing its growth plans and redirecting revenue sources to navigate the downturn. It will eliminate two unfilled faculty positions in an effort to preserve what it views as minimal levels of service.

- ◆ The School of Engineering has only 14% of its consolidated budget supported by endowment, but it will still need to make large reductions in department administrative services, alumni relations and development. They will also freeze some faculty positions and scale back on curricular development and on the assistance provided to faculty as they seek to move into new areas of research.
- ◆ The School of Humanities and Sciences relies on endowment to support 34% of its budget. Consequently, it is planning a wide range of cuts, including: a 10% reduction in staff salary and support costs to departments, a reduction in facilities projects, and a freeze in faculty hiring and graduate aid funding. Some of these efforts are not sustainable in the long-term and will need to be reevaluated over time.
- ◆ The Law School has a large fraction (50%) of its consolidated budget supported by endowment. It will reduce administrative services, school events, and some clinical and public service programs, but will maintain its faculty hiring program.
- ◆ The School of Earth Sciences also has a large fraction of its budget supported by endowment (54%) and projects the largest drop in consolidated revenues, at almost 11%, of any of Stanford's schools. It will be cutting all discretionary activities, reducing administrative support across the school, and freezing faculty searches.
- ◆ The Medical School will be the only school at Stanford to see its consolidated budget grow in 2009/10. This is due to a projected 14% increase in sponsored research and inflationary growth in health care services revenue. Endowment is about 10% of the school's revenue, and its decline will be offset by growth in the other revenue categories.

IMPACTS

Sections 2 and 3 of this Budget Plan address the impacts of these reductions on the academic and administrative units of the university. The impacts vary, depending on each school or unit's particular mix of revenue sources, as well as the strategic decisions made by the unit's leadership. To a certain extent, the budget reduction process allowed us to reassess what we do, and to make many salutary changes that will yield a stronger and leaner institution. But it is clear that there will be noticeable impacts on campus. In particular, the level of administrative support will likely decline; course and research offerings to undergraduates will diminish slightly; there will be fewer faculty for several years as hiring lags below the replacement rate; the level of building maintenance will drop; and some student services will be affected. We anticipate, however, that these impacts will be partly offset by improvements in productivity as we find new ways to do more with less, and as innovative and more cost effective approaches are found to deliver services.

CONSOLIDATED BUDGET FOR OPERATIONS

The table on page vii shows the main revenue and expense line items for 2009/10 and compares those numbers to the projection of actual results for the current year. These figures incorporate the reductions noted above. Some highlights of both income and expense follow.

REVENUE

STUDENT INCOME – This figure is the sum of tuition, room and board income and is expected to grow by 5.7%. Tuition and fee income is projected to grow 5.4% over the projected 2008/09 actuals as the result of a 3.75% increase in the general undergraduate and graduate tuition rates, and increases between 3.5% and 4.9% in the professional schools. In addition, growth is driven by the implementation of the health fee, an increase in application fees, and modest

CONSOLIDATED BUDGET FOR OPERATIONS, 2009/10

[IN MILLIONS OF DOLLARS]

2007/08 Actuals	2008/09 Projected Actuals		2009/10 Consolidated Budget	Percent Change
		Revenues		
581.4	609.9	Total Student Income	644.8	5.7%
		Sponsored Research Support:		
526.8	529.4	Direct Costs-University	566.5	7.0%
351.0	325.1	Direct Costs-SLAC	370.2	13.9%
169.0	172.6	Indirect Cost	192.5	11.5%
1,046.8	1,027.1	Total Sponsored Research Support	1,129.2	9.9%
418.1	461.5	Health Care Services	472.5	2.4%
185.0	150.0	Expendable Gifts In Support of Operations	150.0	0.0%
1,017.9	1,057.2	Investment Income	886.4	(16.2%)
353.5	357.8	Special Program Fees and Other Income	364.8	2.0%
92.3	75.0	Net Assets Released from Restrictions	75.0	0.0%
3,695.0	3,738.5	Total Revenues	3,722.7	(0.4%)
		Expenses		
1,723.2	1,859.9	Salaries and Benefits	1,903.2	2.3%
350.8	325.1	SLAC	370.2	13.9%
176.5	205.6	Financial Aid	218.3	6.2%
1,081.5	1,085.1	Other Operating Expenses	1,100.2	1.4%
3,332.0	3,475.7	Total Expenses	3,591.9	3.3%
363.0	262.8	Operating Results	130.8	
(264.4)	(179.9)	Other Transfers	(92.2)	
98.6	82.9	Operating Results after Transfers	38.6	

growth in graduate student numbers. Room and board income is projected to increase 7.6%, due to the 2.5% increase in the undergraduate room and board rate and the opening of the Munger Graduate Residences.

SPONSORED RESEARCH – Total sponsored research is expected to increase by 9.9% over 2008/09 year-end results. This significant increase comes in marked contrast to recent years in which research has been flat. The growth is due to a 13.9% increase at SLAC and an expected 14% increase in the Medical School. In each case the growth is due to federal stimulus funding. Other research growth is projected to be 1%. Indirect cost recovery is budgeted to increase 11.5%, due to growth in direct costs and an increase in the effective recovery rate.

HEALTH CARE SERVICES INCOME – Revenue from health care services is projected to increase 2.4% in 2009/10, due to increases in the amount paid to the Medical School by Stanford Hospital and Clinics and Lucile Packard Children's Hospital for physician services by its faculty.

EXPENDABLE GIFTS – The Office of Development anticipates that revenue from non-capital gifts available for current expenses will be flat in 2009/10 at \$150 million. This is down from prior year highs of approximately \$200 million due to the economic downturn. This does not include gifts to endowment or for capital projects, which do not appear in the Consolidated

Budget for Operations. In addition, net assets released from restrictions—including payments made on prior year pledges and prior year gifts released for current use—are expected to be flat at \$75 million.

INVESTMENT INCOME – This category consists of income paid out to operations from the endowment and from other investment income, principally the Expendable Funds Pool. Overall, investment income is expected to decrease by \$170.7 million, or 16.2%, a significant reduction. Income from the endowment itself is expected to decrease next year by 11.1%. Other investment income will drop by 54%, primarily due to the loss of the Expendable Funds Pool payout.

EXPENSE

SALARIES AND BENEFITS – We anticipate total salaries and benefits expense to increase 2.3% over 2008/09 year-end results. Although both faculty and staff salaries have been frozen, we expect some salary growth due to promotions and retentions; in addition, there will be a substantial increase in the benefits rate from 28.1% to 30.5%. We expect headcount itself to remain flat, due to reductions in general funds and endowment-supported staff, on the one hand, offset by increases in research staff funded on sponsored projects, on the other hand.

FINANCIAL AID – This includes need-based financial aid, athletic aid, and graduate student aid. The 6.2% increase is being driven by a 7.9% growth in undergraduate aid.

OTHER OPERATING EXPENSES – This line item is the amalgam of operations and maintenance costs, utilities, capital equipment, materials and supplies, travel, library materials, subcontracts, and professional services. We are budgeting a growth of 1.4% for these expenses.

GENERAL FUNDS BUDGET

The central focus of the budget process this year was the development of the general funds component of the consolidated budget. The \$863 million in general funds can be used for any university purpose and supports most of the core academic and administrative activities of the university.

Due to the decline in the financial markets, general funds revenue from investment income will drop significantly over the next three years. In June 2008, we had been forecasting essentially balanced general funds budgets for the next three years. With the market drop, we were faced with an annual, base budget shortfall growing to \$150 million by 2011/12.

Through an intense budget planning process involving the deans, principal administrative officers, and the University Budget Group, we identified a series of central actions that reduced the 2009/10 shortfall by \$39 million (growing to \$48 million by 2011/12), and also identified \$80 million in cuts from the budget units (increasing to \$91 million by 2011/12). We project that these actions will produce a \$40 million general funds surplus in 2009/10, and essentially balanced budgets in the following two years. Barring further major reductions in the value of the endowment, we hope to avoid additional budget reductions.

Half of the general funds budget reductions will be in salary expense and half will come from non-salary expenditures. Major restructuring has taken place in the Office of the Vice Provost for Undergraduate Education, in Lands, Buildings and Real Estate, in the Office of Development, in Public Affairs, and in the Alumni Association. There will be some programmatic losses, including fewer undergraduate seminars, a reduced number of graduate students in some schools, and less outreach, both centrally and in the schools. Many unnecessary or low-priority functions were eliminated across the university, and several units are cooperating to eliminate duplicative services. We believe the impacts on our core teaching and research missions will be manageable.

CAPITAL BUDGET AND PLAN

The Capital Budget and three-year Capital Plan are based on a projection of the major capital projects that the university intends to pursue to further its academic mission. The three-year Capital Plan spans 2009/10 to 2011/12; the Capital Budget represents anticipated capital expenditures in the first year of the plan. The three-year plan includes projects that were initiated prior to 2009/10, as well as projects that will commence within the rolling three-year period through 2011/12. The Capital Budget and Capital Plan are subject to change based on funding availability, budget affordability, and evolving university priorities.

In 2009/10, Capital Budget expenditures are expected to total \$646.7 million, continuing the unprecedented amount of construction that began in 2008/09. The major projects within the 2009/10 Capital Budget include five of the eight Science, Engineering and Medical Campus (SEMC) buildings, which respond to the pressing need to upgrade the university's aging science, medicine, and engineering infrastructure, and account for \$222.3 million of next year's costs. In addition, the plan includes the Graduate School of Business's Knight Management Center, the Bing Concert Hall, and the new Law School Clinics and Faculty Office building, which together account for \$252.6 million in 2009/10 expenditures.

The three-year Capital Plan includes \$1.8 billion in construction and infrastructure projects and programs. This reflects a 36% decrease from last year's plan, largely resulting from the delay or suspension of projects totaling approximately \$1.1 billion. The three-year Capital Plan will be funded from \$425.7 million in current funds, \$883.1 million in gifts, \$175.6 million in auxiliary and service center debt, \$262.5 million in academic debt, and \$53.6 million from other sources. The projects included in the plan can be readily accommodated within the constraints of the General Use Permit given Santa Clara County's approval of Stanford's Sustainable Development Study in April 2009. When complete, the plan will add \$31.7 million in annual debt service and \$25.7 million in incremental operations and maintenance (O&M) costs to the Consolidated Budget.

Needless to say, the economic downturn has significantly affected the university's ability to fund incremental O&M costs on new buildings and debt service on both new and renovated buildings. In response, we initially delayed or suspended \$1.3 billion of capital projects, but due to unique circumstances, several of these projects have been reactivated: the Bing Concert Hall (\$133 million); the Scientific Research Computing Facility (\$46.6 million); Stanford Avenue Faculty Homes (\$30.9 million); and the East Campus Dining Commons (\$20 million). This leaves \$1.1 billion in delayed or suspended projects. Estimated deferral of debt service and O&M on the delayed projects are \$44.9 million and \$20.4 million, respectively.

REQUESTED APPROVAL AND ORGANIZATION OF THIS DOCUMENT

This Budget Plan provides a university-level perspective on Stanford's programmatic and financial plans for 2009/10. We seek approval of the planning directions, the principal assumptions, and the high-level supporting budgets contained herein. As the year unfolds, we will provide periodic variance reports on the progress of actual expenses against the budget. In addition, we will bring forward individual capital projects for approval under normal Board of Trustees guidelines.

This document is divided into four sections and two appendices. Following the overview of budgeting at Stanford, Section 1 describes the financial elements of the plan, including details on the Consolidated Budget for Operations and the projected Statement of Activities for 2009/10. Section 2 addresses program issues in the academic areas of the university. Section 3 provides a similar view of the administrative and auxiliary units. Section 4 contains details on the Capital

Budget for 2009/10 and the Capital Plan for 2009/10–2011/12. The appendices include budgets for the major academic units and supplementary financial information.

LOOKING AHEAD

In last year's Budget Plan I wrote: "The university has never been stronger, whether measured by academic reputation, program quality, student selectivity, alumni support, or financial resources." The events of the past year have taken a toll on the university's financial resources, but along every other dimension, Stanford's strength continues to increase. In this year's *U.S. News & World Report* ranking of graduate programs, all 17 Stanford programs that are ranked fall in the top ten, 16 of 17 rank in the top five, and a stunning 13 of 17 are ranked number one or two in their field: a record matched by no other university. This fall, our undergraduate admissions office received more than 30,000 applications, a 20% increase over last year. As a consequence, we could offer admission to only 7.6% of the applicant pool, the lowest admit rate in university history. We also received a record 13,000 applications to our doctoral programs, a 15% increase over last year, and admitted a smaller percentage than ever before. Alumni donations continue to be remarkably strong, given the economic turmoil's effect on individual wealth and personal peace of mind. Though down about 20%, our alumni's continued generosity reveals a truly gratifying level of support.

Stanford is an exceedingly robust institution. If we react quickly and wisely to the fiscal crisis, I am confident that our position among the great universities of the world will not be diminished. But it is essential to have no illusion that we can avoid significant reductions in hopes that our endowment will recover its previous level in a year or two. A 30% drop in endowment principal requires investment returns of 43% above inflation to return the endowment to its value before the drop. With a 5.5% annual payout and 3% inflation, even a somewhat optimistic forecast of 10% average annual investment returns leaves a 25-year recovery process. But whether it takes 10 years, 25 years, or longer to return to previous endowment levels, this is no temporary decline to be weathered for a brief period. We must acknowledge and adjust to a new baseline in the university budget.

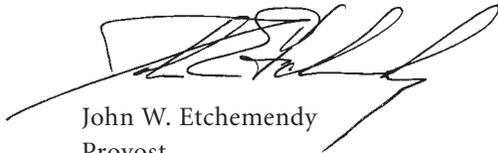
This is why we have accelerated the reduction of our endowment payout. A series of five or more years of smaller endowment cuts might appear less painful now, but would be harmful to the institution in two ways. First, it would be damaging to morale to have to shave the budget year after year, even long after the economy has begun to recover. A faster reduction allows us to arrive more quickly at the point where endowment payout once again keeps up with inflation, and so provides stable, ongoing support to our programs. But even more important, requiring a long series of smaller cuts does not encourage strategic thinking about the budget and where we want the institution to be when we arrive at the new baseline. To wisely adjust to a 25-30% endowment drop, we need to focus on reductions of that scale, not simply manage through five or more separate 5% reductions.

As important as it is to acknowledge the new revenue baseline, it is equally important not to think that full recovery requires a return to endowment levels of recent years. Make no mistake, the university will recover long before the endowment reaches last year's level. Indeed, this will be the case as soon as we get budget reductions behind us, as our continuing revenue streams again keep up with inflation, and as our entrepreneurial faculty begin launching new initiatives in partnership with our many supporters. With strong action to stabilize the budget, we can achieve full recovery in two to three years.

In last year's Budget Plan, I wrote: "This is an exciting time to be at Stanford." The events of the past year have not changed that in the least.

ACKNOWLEDGEMENTS

This has been an extraordinarily challenging year for budget planning. The President and I are deeply grateful for the advice and support of many people in preparing the Budget and Capital Plan described in this document, beginning with members of the Board of Trustees, the Executive Cabinet, and the outstanding staff of our central budget and capital planning offices. I would particularly like to thank Jim Coulter for the wise counsel and support he has offered throughout a difficult year. Two hard-working advisory groups assist in developing the general funds budget and capital plan. The University Budget Group consists of Margaret Brandeau, Adam Daniel, Harry Elam, Patti Gumport, Stephen Hinton, Randy Livingston, Maureen McNichols, Steve Olson, Dana Shelley, Bob Simoni, Buzz Thompson, and Tim Warner. The Capital Planning Group consists of Jack Cleary, Megan Davis, Stephanie Kalfayan, Bob Reidy, Suzanne Sangervasi, Craig Tanaka, Bob Tatum, and Tim Warner. The university, and I personally, owe both groups a special debt of gratitude for the many hours they put into the budget and capital planning process, and for the difficult decisions they helped me make.



John W. Etchemendy
Provost
June 2009

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INTRODUCTION: BUDGETING AT STANFORD

Budgeting at Stanford is a continuous process that takes place throughout the year and occurs at nearly every level within the university. The cycle starts with planning that considers programmatic needs and initiatives, continues with the establishment of cost drivers such as the approved salary program and fringe benefits rates, and is tempered by available funding sources. Stanford's "budget" is an amalgamation of thousands of smaller budgets, including everything from an individual faculty member's budget for a sponsored grant from the National Institutes of Health, to the budget for the Department of Psychology, to the budget for the School of Engineering, to the total of the Consolidated Budget for Operations. These budgets are created and managed by the areas that are governed by them, with oversight by the provost, the chief budget officer of the university. There are general principles and guidelines to which the budgets must adhere, but schools and other units are allowed tremendous freedom in the development and execution of their budgets.

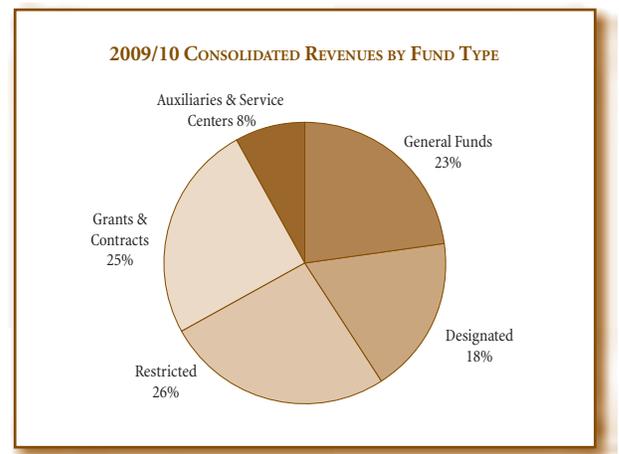
FUND ACCOUNTING

Stanford's budgets are developed and managed according to the principles of fund accounting. Revenue is segregated into a variety of fund types, and the use of the revenue is governed by the restrictions of the fund. For example, each expendable gift is put into an individual fund, and the recipient must use the funds in accordance with the wishes of the donor. Gifts of endowment are also put into separate funds, but the corpus itself is not usually spent. An annual payout on the endowment fund is spent, and as with gift funds, only in accordance with the restrictions imposed by the donor. The segregation of each gift allows the university to ensure that the funds are spent appropriately and to report to donors on the activities that their funds support. Monies received from government agencies, foundations, or other outside sponsors are also deposited in separate, individual funds to ensure strict adherence to the terms of the grants and/or contracts that govern the use of the funds. Non-gift and

non-sponsored research revenue also reside in funds, but this type of revenue may be commingled in a single fund. Often, however, departments may choose to combine unrestricted monies into separate funds for a particular program, for a capital project, or to create a reserve. Stanford's consolidated revenues by fund type are shown below.

BUDGET MANAGEMENT

So how does Stanford budget and manage its roughly 15,000 expendable funds (with balances) and 7,000 endowment funds? It goes without saying that the university uses a sophisticated financial accounting system to set up the individual funds, to record each financial transaction, and to track fund balances. But nearly all of the decision-making for the use of Stanford's funds is made at the local level, consistent with the decentralized and entrepreneurial spirit of the university. Unlike a corporation, Stanford is closer to a collection of disparate, autonomous businesses with widely varying cost structures and resources. As such, each principal investigator is accountable for the responsible use of his/her grant funding, each gift recipient must ensure that the gift funds are used in accord with the donor's wishes, and each school must fulfill the expectations for teaching and scholarship within its available resources.



BUDGET CONTROL

The primary control on local unit budgets at Stanford is available funding. Except for general oversight and policies governing the appropriate and prudent use of university funds, the central administration does not place additional limits on spending. For example, if a faculty member needs to hire a postdoctoral fellow to help carry out a particular research project, and if grant funding is secured to cover this expense, the university does not second-guess this decision. Conversely, two aspects of central budget control are faculty billets and space charges.

Because the majority of Stanford's funding is under the direct control of a faculty member, a department, or a school, these entities are able to support programs as long as they maintain a positive fund balance. This, however, does not mean that the programs must operate with a surplus during any particular fiscal year. In fact, a "deficit" is usually reflective of a planned use of prior year fund balances. A simple example of this is when a department receives a gift of \$5.0 million to be spent over five years. If the funds are spent evenly over the time period, the program will show a surplus of \$4.0 million in the first year and will generate an ending fund balance of \$4.0 million. In each of the next four years, this program will receive no revenue, will expend \$1.0 million dollars, and will thus generate an annual deficit of \$1.0 million while drawing down the fund balance of the gift.

The Consolidated Budget for Operations, the aggregate of all of Stanford's smaller budgets, is therefore not centrally managed in the corporate sense. Nonetheless,

a great deal of planning goes into the development of the individual unit budgets that aggregate into the Consolidated Budget of the university.

DEVELOPMENT OF THE CONSOLIDATED BUDGET & THE ROLE OF GENERAL FUNDS

The concepts of fund accounting and restricted funds were explained above. Another key element in the development of the units' budgets and the Consolidated Budget are university general funds, which are funds that can be used for any university purpose. General funds play a particularly important role in the overall budget, because they cover many expenses for which it is difficult to raise restricted funds, such as administration and campus maintenance. The main sources of general funds are tuition income, indirect cost recovery, unrestricted endowment income, and income from the expendable funds pool.

Each school and administrative unit receives general funds in support of both academic and administrative functions. The process for allocating general funds is controlled by the provost and aided by the Budget Group, which includes representation from both faculty and administration. The critical elements of the process are a forecast of available general funds, a thorough review of each unit's programmatic plans and available local funding, and an assessment of central university obligations such as building maintenance and debt service. Balancing the needs and the resources is the ultimate goal of the Budget Group. The general funds allocation process is described in more depth in Section 1.