# CHAPTER 1
# CONSOLIDATED BUDGET FOR OPERATIONS

In this chapter we review the details of the 2016/17 Consolidated Budget for Operations, describe the general funds allocation process and results, and present a forecasted Statement of Activities.

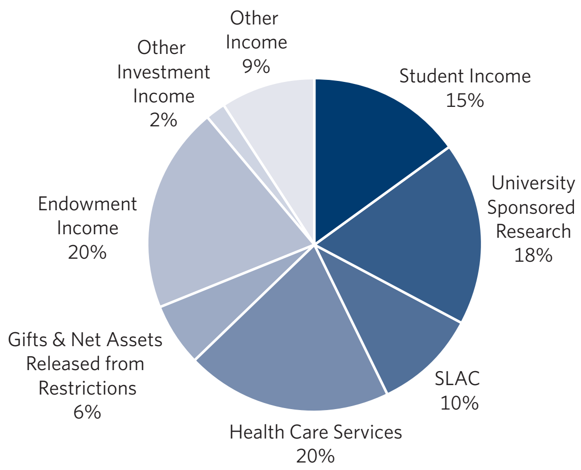
## CONSOLIDATED BUDGET FOR OPERATIONS

The Consolidated Budget for Operations provides a management-oriented overview of all non-capital revenues and expenditures for Stanford University in the fiscal year. It is based on forecasts from the schools and administrative areas. These forecasts are then merged with the general funds budget forecast and adjusted by the University Budget Office for consistency. The Consolidated Budget includes only those revenues and expenses available for current operations. It does not include plant funds, student loan funds, or endowment principal funds, although it does reflect endowment payout. It also does not include the budgets of Stanford Health Care or Lucile Packard Children's Hospital.

The 2016/17 Consolidated Budget for Operations shows total revenue of $5,880.7 million and expenses of $5,594.1 million, resulting in a net operating surplus of $286.6 million. After projected transfers of $165.7 million, predominately to plant funds, the Consolidated Budget shows a surplus of $121.0 million.

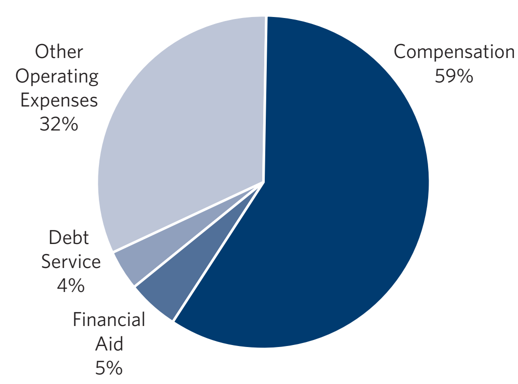
Total revenues in 2016/17 are projected to increase $148.4 million or 2.6% over that in 2015/16, a modest increase compared to the 7.1% average annual increase over the past five years. However, the total growth belies the variability among the component revenue sources. Health care services revenue is expected to continue at double-digit growth, as Stanford Medicine expands both on-campus and in new faculty practice locations throughout the Bay Area.

**2016/17 CONSOLIDATED REVENUES: $5,880.7M [1]**




[1] Net Revenues after Transfers: $5,715.1 Million

**2016/17 CONSOLIDATED EXPENSES: $5,594.1M**



## CONSOLIDATED BUDGET FOR OPERATIONS, 2016/17

[IN MILLIONS OF DOLLARS]

| 2014/15 ACTUALS | 2015/16 BUDGET JUNE 2015 | 2015/16 PROJECTED ACTUALS | | GENERAL FUNDS | DESIGNATED | RESTRICTED | GRANTS AND CONTRACTS | AUXILIARY & SERVICE CENTER ACTIVITIES | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| | | | **Revenues and Other Additions** | | | | | | |
| 330.9 | 341.2 | 342.0 | Undergraduate Programs | 353.7 | 0.2 | | | | 353.9 |
| 329.0 | 339.9 | 343.2 | Graduate Programs | 349.3 | 7.1 | | | | 356.4 |
| 164.3 | 167.8 | 173.0 | Room and Board | | 0.1 | | | 185.6 | 185.7 |
| 824.2 | 848.9 | 858.1 | Student Income | 703.0 | 7.4 | 0.0 | 0.0 | 185.6 | 896.0 |
| 716.7 | 715.7 | 762.9 | Direct Costs—University | | | | 788.2 | | 788.2 |
| 242.6 | 241.5 | 253.6 | Indirect Costs | 262.3 | | | | | 262.3 |
| 959.2 | 957.2 | 1,016.5 | University Sponsored Research | 262.3 | 0.0 | 0.0 | 788.2 | | 1,050.5 |
| 430.4 | 507.5 | 496.8 | SLAC Sponsored Research | 0.0 | 0.0 | 0.0 | 590.6 | 0.0 | 590.6 |
| 957.9 | 964.2 | 1,065.4 | Health Care Services | 32.9 | 1,092.1 | 10.4 | 0.0 | 41.4 | 1,176.8 |
| 390.2 | 315.0 | 355.0 | Gifts and Net Assets Released from Restrictions | 3.9 | 0.0 | 345.8 | 0.0 | 0.0 | 349.6 |
| 1,065.5 | 1,152.4 | 1,149.4 | Endowment Income | 232.3 | | 945.8 | | | 1,178.1 |
| 222.6 | 242.9 | 268.4 | Other Investment Income | 11.2 | 93.7 | 0.2 | | 0.4 | 105.6 |
| 1,288.1 | 1,395.3 | 1,417.9 | Investment Income | 243.5 | 93.7 | 946.0 | 0.0 | 0.4 | 1,283.6 |
| 516.0 | 514.1 | 522.7 | Special Program Fees and Other Income | 21.7 | 367.6 | 1.1 | 0.2 | 142.9 | 533.6 |
| **5,366.0** | **5,502.2** | **5,732.3** | **Total Revenues** | **1,267.3** | **1,560.9** | **1,303.2** | **1,379.0** | **370.3** | **5,880.7** |
| | | | **Expenses** | | | | | | |
| 2,881.5 | 3,054.2 | 3,110.4 | Compensation | 895.8 | 953.0 | 522.7 | 692.6 | 258.5 | 3,322.6 |
| 260.5 | 280.5 | 275.6 | Financial Aid | 42.0 | 6.0 | 221.0 | 17.0 | 0.1 | 286.1 |
| 198.6 | 193.0 | 189.7 | Internal Debt Service | 61.3 | 23.7 | 2.1 | | 116.9 | 204.0 |
| 1,525.0 | 1,615.2 | 1,668.5 | Other Operating Expenses | 302.4 | 320.3 | 257.9 | 633.9 | 266.9 | 1,781.4 |
| **4,865.6** | **5,142.9** | **5,244.2** | **Total Expenses** | **1,301.5** | **1,303.0** | **1,003.7** | **1,343.5** | **642.4** | **5,594.1** |
| **500.4** | **359.3** | **488.2** | **Operating Results** | **(34.2)** | **257.9** | **299.5** | **35.5** | **(272.1)** | **286.6** |
| | | | **Transfers** | | | | | | |
| (110.7) | (100.0) | (95.3) | Transfers from (to) Endowment Principal | 16.3 | (22.9) | (30.3) | | | (36.9) |
| (165.2) | (167.5) | (154.8) | Transfers from (to) Plant | (13.4) | (131.9) | (12.3) | | (1.5) | (159.1) |
| 34.3 | 36.1 | 30.7 | Other Internal Transfers | 43.5 | (40.7) | (204.9) | (35.5) | 267.9 | 30.3 |
| **(241.6)** | **(231.4)** | **(219.3)** | **Total Transfers** | **46.4** | **(195.5)** | **(247.4)** | **(35.5)** | **266.4** | **(165.7)** |
| **258.8** | **127.9** | **268.8** | **Operating Results and Transfers** | **12.2** | **62.3** | **52.2** | **0.0** | **(5.7)** | **121.0** |
| 2,710.3 | 2,814.2 | 2,969.1 | Beginning Fund Balances | 505.4 | 1,348.1 | 1,340.4 | 32.4 | 11.6 | 3,237.9 |
| 2,969.1 | 2,942.1 | 3,237.9 | Ending Fund Balances | 517.5 | 1,410.4 | 1,392.5 | 32.4 | 6.0 | 3,358.9 |

In stark contrast, total investment income is expected to decline nearly 10% due to the decision to hold flat the endowment payout per share for existing endowment funds and to the loss of payout on the expendable funds pool in 2016/17. Student income and university sponsored research are expected to grow 4.4% and 3.3%, respectively. SLAC revenues are projected to increase by 18.9% to cover large growth in construction. Excluding SLAC, the university's revenue is projected to grow by only 1.0%. However, excluding both SLAC and health care services, revenues are projected to decline by 1.4%.

Total expenses in 2016/17 are forecast to grow by 6.7% over the projected year-end results for 2015/16, but only by 5.4% excluding SLAC. SLAC expenses are expected to grow by 18.9% overall, due to an $81.8 million, or 42.3%, increase in construction activity. While the general salary program for both faculty and staff is slightly lower than the past two years, increased headcount for both faculty and staff, particularly to support new and expanded academic programs, will drive up overall compensation expenses. Growth in general operating expenses is expected to slow somewhat compared to the increases of the past several years.

The table on the facing page shows the projected consolidated revenues and expenses for 2016/17. For comparison purposes, it also shows the actual revenues and expenses for 2014/15 and both the budget and the year-end projection for the current fiscal year, 2015/16. Definitions of key terms are provided below.

## THE CONSOLIDATED BUDGET BY PRINCIPAL REVENUE AND EXPENSE CATEGORIES

### Revenues

#### *Student Income*

Student income is expected to increase by 4.4% in 2016/17 to $896.0 million. Increases in student charges are approved by the Board of Trustees and are guided by a number of considerations: programmatic needs, the effectiveness of the financial aid program, the impact of the economy on the families of students, and Stanford's pricing position relative to peers.

**Tuition and Fees**—Stanford expects to generate $710.3 million in tuition and fee revenue in 2016/17, a 3.7% increase over 2015/16. Tuition and fees from undergraduate programs are projected to be 3.5% higher than the current year, consistent with the approved tuition rate. Graduate student tuition will increase by 3.9%, a slightly higher pace





**KEY TERMS**

**General Funds:** Unrestricted funds that can be used for any university purpose. The largest sources are tuition, unrestricted endowment income, and indirect cost recovery.

**Designated Funds:** Funds that come to the university as unrestricted but are directed to particular schools and departments, or for specific purposes by management agreement.

**Restricted Funds:** Include expendable and endowment income funds that can only be spent in accordance with donor restrictions.

**Grants and Contracts:** The direct component of sponsored research, both federal and non-federal. Individual principal investigators control these funds.

**Auxiliaries:** Self-contained entities such as Residential & Dining Enterprises and Athletics that generate income and charge directly for their services. These entities usually pay the university for central services provided.

**Service Centers:** Entities that provide services primarily for internal clients for which they charge rates to recover expenses.

**Net Assets Released from Restrictions:** Under GAAP, gifts and pledges that contain specific donor restrictions preventing their spending in the current fiscal year are classified as "temporarily restricted," and are not included in the Consolidated Budget for Operations. When the restrictions are released, these funds become available for use and are included as part of the Consolidated Budget on the line Net Assets Released from Restrictions. These funds include cash payments on prior year pledges and funds transferred from pending funds to gift funds.

**Financial Aid:** Includes expenses for undergraduate and graduate student aid. Student salaries, stipends, and tuition allowances are not considered to be financial aid and are included in other lines in the Consolidated Budget.

**Formula Areas:** Budget units whose allocations of general funds are predetermined by a formula agreed to by the provost and the unit. Principal formula units include the Graduate School of Business, the School of Medicine, and Continuing Studies/Summer Session.

than undergraduate tuition, due to a higher rate increase for first-year MBA students at the Graduate School of Business, as well as modest growth in total graduate student enrollment. While tuition and fees will contribute only 12% of Stanford's total revenue in 2016/17, it will comprise 55% of general funds. As such, it is a vital source of unrestricted revenue. In addition to supporting faculty and staff salaries and other direct academic program needs, tuition plays a crucial role in funding infrastructure, support services, and other operational activities.

The general tuition rate increase for 2016/17, approved by the Board of Trustees in February, is 3.5%, which results in a rate of $47,331 for undergraduates and non-professional graduate students. The rate increase was set after careful consideration of the current economic circumstances weighed against the budgetary needs. Stanford continues to be, along with its peers MIT, Harvard, Yale, and Princeton, one of the lowest priced universities among the highly selective private universities that comprise the Consortium on Financing Higher Education (COFHE). The median tuition of the COFHE university cohort increased 3.9% for 2015/16, leaving Stanford's tuition rank unchanged at 15th out of 17.

The approved 3.5% tuition increase applies to the undergraduate tuition rate, the general graduate tuition rate, and the graduate tuition rates for the School of Engineering, the School of Law, and the School of Medicine. The approved tuition rate increase for first year MBA students is 3.9%.

**Room and Board**—Total room and board income is projected to be $185.7 million in 2016/17, increasing by 7.3% over the current year. This somewhat higher growth in room and board revenue is driven by the opening of two new student residences, the undergraduate Lagunita Court and the graduate Highland Hall in the GSB, as well as additional housing for graduate students at campus rates in the local community.

In February, the Trustees approved a combined undergraduate room and board rate increase of 3.5% for 2016/17, bringing the undergraduate rate to $14,601. The room rate will increase by 4.4%, and the 19-meal board plan will increase by only 2.2%. Stanford's combined room and board rate increases continue to be less than the COFHE university median, and, as a result, Stanford's room and board ranking in 2015/16 remained at 11th out of 17. The 2016/17 recommended rate increases will allow Residential and Dining Enterprises (R&DE) to cover labor and food cost increases and maintain Stanford's high-quality residential and dining programs. It will also provide funding to address deferred maintenance across the housing system and build a reserve to avoid future deferred maintenance issues.

## *Sponsored Research and Indirect Cost Recovery*

### University

University sponsored research revenue, excluding SLAC, is budgeted to increase 3.3% to $1,050.5 million in 2016/17. This amount includes the direct research revenue from externally supported grants and contracts ($788.2 million) as well as reimbursement for indirect costs incurred by the university in support of sponsored activities ($262.3 million).

**SPONSORED RESEARCH EXPENSES**
**(Excluding SLAC)**
[IN MILLIONS OF DOLLARS]

| | 2015/16 | 2016/17 | PERCENT CHANGE |
|---|---|---|---|
| Federal Directs | 534.6 | 544.4 | 1.8% |
| Non-Federal Directs | 228.3 | 243.8 | 6.8% |
| Total Directs | 762.9 | 788.2 | 3.3% |
| Total Indirects | 253.6 | 262.3 | 3.5% |
| **Total Research** | **1,016.5** | **1,050.5** | **3.3%** |

The federal government provides approximately 70% of university research funding, and constrained federal discretionary budgets continue to create uncertainty and volatility for faculty seeking support from federal agencies. Overall, federal funding is expected to reach $544.4 million in 2016/17, an increase of 1.8% over 2015/16. This modest increase belies the variability in funding among schools, in particular between the School of Medicine (SoM) and the other academic units. Funding from the National Institutes of Health (NIH), which represents 92% of federal support to the SoM, remains strong in 2015/16, up 7.5% in the first six months; the SoM is projecting to close out the year with about 7% growth in federal sponsored research and to continue with 4.9% growth in 2016/17. In contrast, the other academic units, collectively, are projecting a 3.6% increase in direct federal research in 2015/16, after a 3.5% decline in each of the past two years. Growth is not expected to continue. Federal research support in the non-Medical schools and units is expected to decline 2.8% in 2016/17. The rebound in 2015/16 is largely driven by a one-time spike in lab equipment purchases funded by the National Science Foundation (NSF) grants supporting institutes within the Dean of Research (DoR), and by incremental grants associated with new senior faculty hires in the School of Humanities and Sciences (H&S).

In contrast to federal funding, the university has experienced strong growth in non-federal research support across all areas. In the past two years, the growth rate has been over 10%, primarily led by grants from foundations and research institutes. Comparable growth is expected in 2015/16 with strong activity in the Graduate School of Education (GSE), H&S, SoM, and centers in DoR. SoM activities funded by the California Institute for Regenerative Medicine (CIRM), the state's stem cell research agency, are projected to be flat in both 2015/16 and 2016/17, after a 20% plunge in funding in 2014/15. CIRM grants are anticipated to taper beginning in 2018/19. Overall, university direct non-federal funding is forecast to increase by 6.8% to $243.8 million, with the SoM growing at a slightly faster pace than the other schools. The Dean of Research is the only academic unit projecting a decline, as one of its non-federal sponsored programs is ramping down.

Indirect cost recovery will increase by 3.5% to $262.3 million in 2016/17. The facilities & administration rate (or indirect cost rate), though not negotiated at the time of this writing, is expected to stay flat. Because non-federal research growth has outpaced that of federal research in recent years, non-federal support is a significantly larger fraction of the research base. The impact of this shift is less indirect cost recovery, because many foundations and other non-federal sponsors do not allow the full federally negotiated indirect cost rate. As a result, more costs in support of the research mission are borne by the university. That said, indirect costs are expected to grow at a slightly faster pace than direct research in 2016/17, because less capital equipment purchase is anticipated, an activity exempt from indirect cost recovery, resulting in a higher portion of grants and contracts assessed the indirect rate.

### SLAC

SLAC's 2016/17 sponsored research budget, which includes sponsored research and sponsored capital project activities, is projected to be $590.6 million, an increase of 18.9% or $93.8 million. SLAC's Department of Energy (DoE) funding represents over 98 percent of SLAC's total funding. About 53% of the DoE funding will support non-construction direct research activities, growing at about 4% in 2016/17. The remaining $275.0 million of DoE funds are for construction projects. The largest is the Linac Coherent Light Source (LCLS-II) upgrade, whose budget will increase by $82 million over the 2015/16 level. SLAC research and construction programs are discussed in more detail in Chapter 2.

### *Health Care Services*

During the current fiscal year, 2015/16, health care services revenue will again experience double-digit growth and is expected to exceed $1.0 billion for the first time. Strong growth is projected to continue into 2016/17, when health care services income is budgeted to be $1,176.8 million, a 10.5% increase over the current year. Health care services revenue has grown from $282.1 million in 2004/05 to $957.9 million in 2014/15, an average annual increase of 13%, making it the fastest growing segment in the Consolidated Budget over the past ten years, and it is likely to remain a rapidly growing source of income in the next few years as the School of Medicine recruits clinically active faculty and clinician educators in conjunction with the expansion of Stanford Health Care and Lucile Packard Children's Hospital. The School of Medicine and the hospitals have an integrated clinical strategy that includes the growth essential to maintaining preeminence in a highly competitive health care market and to providing the highly specialized care required for training purposes by a leading academic medical center.

The School of Medicine generates almost 92% of the university's total health care services revenue, the majority of which is paid by Stanford Health Care and Lucile Packard Children's Hospital, through the professional services and funds flow agreements. These agreements pass a portion of the hospitals' clinical service revenues to the academic departments based on clinician productivity, with additional payments made for department overhead costs, medical direction leadership, programmatic development, and for measures of quality, safety, and value. Hospital payments cover compensation expenses for faculty, clinician educators, and staff directly involved in the clinical mission. In addition the funds flow agreements cover non-compensation expenses of the clinical mission as well as support of the academic and research mission. Clinical revenues in 2016/17 are projected to increase 12.5% to $982.9 million. An additional $97.6 million of hospital payments to the

School of Medicine cover the university's formula assessment on the school's clinical revenue, rent, use of the library, 3-D imaging, and other non-clinical programs and services.

The remaining $96.3 million in health care services revenue represents payments from the hospitals to other parts of the university: $25.7 million to Business Affairs, primarily for communications services; $25.0 million to Land, Buildings and Real Estate for operations and maintenance and utilities, the Marguerite shuttle service, and parking permits; $10.1 million to the Office of Development for hospital fundraising support; $7.4 million to the Office of the General Counsel for legal services; and $17.5 million to the central administration for parking structure debt service, Stanford Infrastructure Program fees, and general overhead.

### *Gifts and Net Assets Released from Restrictions*

Revenue from expendable gifts and net assets released from restrictions is forecast to be $349.6 million in 2016/17. This total is a slight decrease compared to the projection for 2015/16, which is estimated to be about 9% less than 2014/15. Expendable gift receipts were particularly high in 2014/15 and are not likely to be sustained at that level. Moreover, higher expectations for gifts for capital projects and to endowment will likely impact expendable giving totals.

Expendable gifts are those immediately available for purposes specified by the donor and do not include gifts to endowment principal, gifts for capital projects, gifts pending designation, or non-government grants. Net assets released from restrictions include cash payments on gift pledges made in prior years, as well as pending gifts whose designation has been determined. The distinction between expendable gifts and net assets released is that the latter are funds that were previously classified as temporarily restricted. As donor restrictions are satisfied, they become available for units to use in an equivalent manner to expendable gifts.

### *Investment Income*

In 2016/17, investment income is expected to decline 9.5% to $1,283.6 million. This total includes endowment payout to operations as well as other investment income described below.

**Endowment Income**—Endowment payout to operations in 2016/17 is expected to be $1,178.1 million, a modest increase of 2.5% over 2015/16. Endowment income includes payout from individual funds invested in the merged pool (MP) as well as specifically invested endowments (e.g., oil and mineral rights), and net rental income from the Stanford Research Park and other endowed lands.

There will be no increase in the payout from an individual endowment fund invested in the MP in 2016/17—the payout will be unchanged from the payout in 2015/16. Ordinarily, the forthcoming fiscal year's spending rate for the MP is based on the university's smoothing rule, which seeks to dampen the impact on the budget of annual fluctuations in the market value of the endowment. The smoothing rule uses the approved target payout rate of 5.5% to calculate a target payout per share in the current year. Taking a weighted average of the target payout per share and the current year's actual payout per share results in a smoothed payout per share. The next year's payout per share is derived by increasing the smoothed payout per share by the long-term payout growth factor of 4.5%. Finally, the proposed payout per share is expected to provide an overall endowment payout rate that is within the range of 4.0% to 6.0%. Based on the January 31, 2016 MP share price, the smoothing rule produced a payout rate of 6.0%, the upper limit of the guardrail. Consequently, and in deference to the current uncertainties in the investment markets, university management proposed to the Trustees at the February 2016 Finance Committee meeting to hold the payout per share flat in 2016/17.

While payout on existing funds will be flat next year, total merged pool payout is expected to increase by 2.0% due to new gifts and pledges to endowment principal during the remainder of the current year and throughout 2016/17, as well as transfers by schools and departments of $95.3 million from expendable funds to funds functioning as endowment at the end of the current fiscal year.

Of the total endowment income, $232.3 million, or 19.7%, is unrestricted and is a source of general funds. The unrestricted endowment income includes payout from unrestricted MP funds, income generated from Stanford endowed lands, and a small amount of other specifically invested endowment income. Total unrestricted endowment income is expected to be largely unchanged in 2016/17. The MP payout component will decrease by 5.1% in 2016/17 due to the withdrawal of $123.5 million from the Tier I Buffer needed to cover the 2015/16 expendable funds pool payout. The expendable funds pool (EFP) is not expected to realize positive returns in 2015/16, but the current year EFP payout is set by policy to be based on the prior year's return. The decrease in unrestricted MP payout is offset by a projected 9.8% increase in rental income generated from Stanford endowed lands. This growing portion of the unrestricted endowment income is expected to be $95.3 million in 2016/17.

**Other Investment Income**—Other investment income is expected to drop sharply to $105.6 million in 2016/17, less than half of the anticipated 2015/16 level. Other investment income comprises two categories of revenue: payout to operations from the expendable funds pool (EFP) and earnings from the endowment income funds pool (EIFP), and investment income from several smaller sources as described below.

The EFP is a collection of thousands of individual funds and is projected to have a 2016/17 year-end balance of $4.0 billion. Approximately 80% of the funds in the EFP receive no payout directly. Rather, a variable payout of 0% to 5.5% on the balances of these so-called zero return accounts, based on the actual EFP investment returns during the prior fiscal year, is paid to general funds, both centrally and in the formula schools. The EFP is invested mostly in the merged pool (MP), and thus the EFP return follows closely the return on the MP. Because little or no earnings are expected to be generated by the EFP in the current year, EFP payout on the zero return funds is expected to drop from $142.4 million in 2015/16 to only $14.9 million in 2016/17. The remaining funds invested in the EFP receive a payout equal to a money-market return, which is expected to remain minimal at 0.5% in 2016/17, yielding $0.7 million. The EIFP is expected to earn $0.2 million and to have a fund balance of $390.6 million at the end of 2016/17.

The $3.4 billion ending fund balances of the Consolidated Budget for Operations shown on page 8 include all of the EIFP but only $3.0 of the total $4.0 billion EFP, consisting of general operating funds, designated funds, expendable gifts, and non-federal sponsored research funds. The portion of the EFP not included in the Consolidated Budget comprises roughly $710 million in plant and debt pool funds and $290 million in student loan, pending, and agency funds.

The non-EFP portion of other investment income comprises $46.3 million in investment income distributed to support the operations of the Stanford Management Company and the real estate division of Land, Buildings and Real Estate; $18.4 million in interest income on the Stanford Housing Assistance Center (SHAC) portfolio; and miscellaneous other investment income including rents from the Sand Hill Offices, security lending, and other interest income. The non-EFP portion of other investment income is projected to decrease from $125.3 million in 2015/16 to about $90 million in 2016/17, as a result of the large one-time payment for the sale of the Stanford Blood Center in 2015/16.

### *Special Program Fees and Other Income*

Special program fees and other income revenue is budgeted at $533.6 million in 2016/17, an increase of 2.1% over the expected level in 2015/16. This category is a collection of revenue streams that includes executive education instruction fees; technology licensing income; academic corporate affiliates income; ticket, admission, and broadcast fees for athletic and other events; conference and symposium revenues; rental income from the Mid-Point Technology Park and the Welch Road and Stanford West Apartments; and participation fees collected by the travel/study programs. The slower growth in 2016/17 is due partially to the tail-off of a major patent that accounted for over 70% of university licensing income and partially to diminishing rental income from the Mid-Point Technology Park as the university embarks on the construction of an administrative campus in Redwood City. Other income category also includes a wide range of other miscellaneous income streams throughout the university, ranging from retail revenues in Residential & Dining Enterprises to fees for the use of various athletic facilities such as the golf driving range and summer sports camps.

## Expenses

### *Total Compensation*

Total Compensation in the Consolidated Budget for Operations includes faculty, staff, bargaining unit, and student assistantship salaries; fringe benefits; tuition benefits for research and teaching assistants; and other non-salary compensation such as bonuses and incentive pay. Total compensation in 2016/17 is budgeted to be $3,322.6 million, a 6.8% increase over the 2015/16 year-end projection of $3,110.4 million. The approved merit programs for faculty and staff and anticipated headcount growth drive this increase.

**Salaries**—Total salary expense for faculty and staff, including SLAC, is expected to grow by 6.7% in 2016/17 to $2,195.1 million. Overall, projected salary expense in 2016/17 is the result of the approved salary program, incremental funding to increase the competitiveness of faculty salaries for a few selected ranks and departments, and total combined headcount growth of 3.5% for faculty and staff. The headcount growth assumption is based on observations of the 2015/16 actual headcount trend and analysis of historical average growth. Within this aggregate, the university anticipates faculty growth to be 2.0% in 2016/17. In recent years the number of academic staff has grown significantly across the university in support of expanding academic programs in the independent labs and in the schools. In particular, the School of Medicine expects to hire 75 additional clinician educators in 2016/17, a significant driver in the overall increase in academic staff. The headcount for non-academic staff is projected to rise 2.5%, consistent with recent years' growth.

Similar to past years, the approved salary program takes into consideration the financial condition of the university as well as the current labor market status. The annual salary program was guided by the university's compensation philosophy, which is to set faculty salaries at a level that will maintain Stanford's competitive position both nationally and internationally for the very best faculty; and to set staff salaries competitive within the local employment market in order to attract and retain top talent. Department level faculty salary data analysis shows that Stanford enjoys a competitive faculty salary position in most areas, but targeted allocations above the standard faculty merit pool were made in selected cases. A review of salary survey data in several local markets indicates that staff salaries are in line with market median salaries as of September 2015. The salary program for 2016/17 was established accordingly.

Every year a minimum salary is set for research and teaching assistants, although departments and programs may choose to pay more than the minimum. The goal is for graduate students' income to provide sufficient financial support to meet the estimated non-tuition living expenses for a single graduate student living on campus. In 2016/17 the minimum salary will be increased by 4.5%. It is expected that the budget for all research and teaching salaries will follow suit.

**Fringe Benefits**—Fringe benefits expense is projected to increase 6.9% in 2016/17 to $679.0 million. This figure includes the 9.6% increase expected in the benefits expense for SLAC employees associated with the ramp up of construction activity. The remaining university fringe benefit expenses will grow by 6.7%, a rate in line with the growth in overall salary expenses.

The university tracks the benefits costs separately for four distinct employee groups and charges a different rate for each group based on the types of benefits that each is eligible to receive. The federally negotiated rates are calculated as a ratio of total benefit costs to total payroll for each group:

- Regular benefits-eligible employees
- Postdoctoral research affiliates
- Casual/temporary employees
- Graduate research and teaching assistants

In addition, the university applies a fifth rate to eligible salaries to recover the costs of the Tuition Grant Program (TGP), which provides undergraduate college tuition benefits for the dependents of eligible faculty and staff. The government does not allow these charges, so the TGP rate is applied only to faculty and staff salaries that are not charged to government sponsored projects or academic service centers. The TGP rate will drop from 1.85% to 1.75% in 2016/17, and this cost comprises roughly $29 million of the university's total fringe benefits expense.

Ninety-five percent of all fringe benefits expense is incurred for regular benefits-eligible employees, and the proposed rate for this group in 2016/17 is expected to increase only 0.1 rate points over the negotiated rate for 2015/16. A similar increase is proposed for the rate for research and teaching assistants. The rates for the postdoctoral research affiliates and casual/temporary employees will be lower in 2016/17.

## FRINGE BENEFITS RATES

| | NEGOTIATED 2015/16 | PROPOSED 2016/17 |
|---|---|---|
| Regular Benefits-Eligible Employees | 30.6% | 30.7% |
| Postdoctoral Research Affiliates | 24.3% | 22.6% |
| Casual/Temporary Employees | 8.8% | 8.4% |
| Graduate RAs and TAs | 5.2% | 5.3% |
| **Average Blended Rate** | **28.3%** | **28.3%** |

The major cost components contributing to the regular benefits-eligible rate are noted below:

- Retirement programs, which make up 49% of the total costs in the fringe pool, are expected to increase by 0.4 rate points. The increase is driven mainly by a cash contribution to the Stanford Retirement Annuity Plan, which will in turn reduce the Pension Benefit Guaranty Corporation variable premium.

- The university's contributions for active regular benefits-eligible employees health plans are projected to increase by 0.2 rate points in 2016/17, for a total budget of $188.8 million. The increase is the result of a combination of factors, including enrollment growth and medical cost inflation, which will be mitigated by the risk sharing agreement with Stanford Health Care Alliance (SHCA). SHCA was introduced in January 2014 and is now the low-cost plan offered to university employees. In January 2016 the ACA Basic high deductible health plan was introduced to meet the requirements of the Affordable Care Act (ACA).
- The combined impact of other insurance programs, including workers' compensation, the dental plan, and long-term disability, is a decrease of 0.3 rate points in 2016/17.
- The under-recovery of fringe costs in previous years will result in an additional 0.2 rate point decrease in the regular benefits-eligible rate in 2016/17.

The fringe rate for postdoctoral research affiliates will decrease by 1.7 rate points from the 2015/16 negotiated rate mainly due to lower medical inflation and the impact of over-recovery in prior years.

The fringe rate for casual/temporary employees will decrease by 0.4 rate points due to the impact of over-recovery of costs in 2014/15. The rate for graduate research and teaching assistants (RAs and TAs) will increase by 0.1 rate point primarily due to the increase in Cardinal Care premium rate.

### *Financial Aid*

Stanford expects to spend a total of $286.1 million on student financial aid for undergraduate and graduate students in 2016/17, $42.0 million of which will come from general funds. Designated and restricted funds ($227.0 million) and grants and contracts ($17.0 million) will support the remainder. Total budgeted financial aid is 3.8% above the projected total for 2015/16, as discussed below.

**Undergraduate Aid**—In 2016/17 Stanford students will receive $147.2 million in undergraduate need-based scholarships, of which $141.8 million will be from Stanford resources, an increase of 3.6% over the projection for 2015/16, consistent with the growth in the student budget. In addition to Stanford resources, $5.4 million will come from federal grants, mostly Pell and Supplemental Educational Opportunity Grant (SEOG) grants, an amount comparable to 2015/16 but slightly less than historical levels. Cal Grants, which are not reflected in the Consolidated Budget for Operations, will provide $3.0 million, a slight decrease from the current year.

Stanford has long been committed to need-blind admissions supported by a financial aid program that meets the demonstrated financial need of all admitted undergraduate students. Since 2008/09 one of the hallmarks of the need-based program has been simple benchmarks that make it easy for prospective students, particularly from low-income backgrounds, to understand likely financial support from Stanford. These benchmarks were updated for 2015/16 as follows:

- For families with total annual income below $65,000 (formerly $60,000) and typical assets for this income range, Stanford will not expect a parent contribution toward educational costs. Tuition, room and board, and other expenses will be covered with scholarship or grant funds.
- For families with total annual income below $125,000 (formerly $100,000) and typical assets for this income range, the expected parent contribution will be low enough to ensure that all tuition charges will be covered with scholarship or grant funds.

There are no undergraduate financial aid policy changes planned for 2016/17. With the changes implemented in the current year, Stanford's financial aid program continues to be one of the most generous in the country, ensuring that a family's economic circumstances will not prevent admitted students from enrolling. The overall number of aid recipients in 2016/17 will be reduced slightly because of the improved economy.

It is interesting to note the relative share of university funding sources supporting this critical program. Five years ago, president's funds support was 30%, and endowment income support at $71.8 million was 57%. Since then, generous donor support has boosted endowment income support to 70% of Stanford resources supporting need-based aid. Incremental gifts to endowment for need-based aid result in annual endowment payout that outpaces standard

## UNDERGRADUATE NEED-BASED SCHOLARSHIP AID

[IN MILLIONS OF DOLLARS]

| SOURCE OF AID | 2011/12 ACTUALS | 2012/13 ACTUALS | 2013/14 ACTUALS | 2014/15 ACTUALS | 2015/16 PROJECTED | 2016/17 PLAN |
|---|---|---|---|---|---|---|
| Department Funds and Expendable Gifts | 2.5 | 3.0 | 3.2 | 3.6 | 3.6 | 3.9 |
| Endowment Income | 71.8 | 75.0 | 81.4 | 86.9 | 95.8 | 99.2 |
| President's Funds - The Tier II Buffer | 19.2 | 9.3 | | | | |
| President's Funds - The Stanford Fund | 19.0 | 16.6 | 18.3 | 18.5 | 18.5 | 18.6 |
| General Funds | 14.3 | 23.6 | 23.6 | 21.9 | 19.1 | 20.1 |
| Subtotal Stanford Funded Scholarship Aid | 126.7 | 127.4 | 126.5 | 130.9 | 136.9 | 141.8 |
| Federal Grants | 6.0 | 5.6 | 5.5 | 5.8 | 5.4 | 5.4 |
| **Total Undergraduate Scholarship Aid** | **132.7** | **133.0** | **132.0** | **136.6** | **142.3** | **147.2** |
| General Funds as a Share of Stanford Funding | 11% | 18% | 19% | 17% | 14% | 14% |
| President's Funds as a Share of Stanford Funding | 30% | 20% | 14% | 14% | 14% | 13% |
| Endowment funds as a Share of Stanford Funding | 57% | 59% | 64% | 66% | 70% | 70% |
| Number of Students | 3,464 | 3,417 | 3,278 | 3,254 | 3,204 | 3,195 |

incremental costs of the program. Without major changes in the program, the increases in endowment payout allow for slower increases in support from general funds.

The table on the next page shows the detail of undergraduate need-based scholarship aid. Schedules 8 and 9 in Appendix B provide supplemental information on undergraduate financial aid.

Athletic scholarships, which are not need-based, will be awarded to undergraduate students in the amount of $25.1 million in 2016/17, a 3.5% increase over the projection for the current year.

**Graduate Aid**—Stanford provides several kinds of financial support to graduate students, the total of which is expected to reach $411.8 million in 2016/17. As the table below indicates, this includes the tuition component of fellowships in the amount of $113.3 million, which is reflected in the Financial Aid line of the Consolidated Budget. Financial aid for graduate students is expected to increase by 4.5%, consistent with the planned increases in tuition, more generous graduate support in selected disciplines, and some expected increase in the number of graduate students. The table also shows the budgets, not represented in the

## 2016/17 FINANCIAL AID AND OTHER GRADUATE STUDENT SUPPORT FROM STANFORD RESOURCES

[IN MILLIONS OF DOLLARS]

| PROJECTED 2015/16 YEAR-END | | GENERAL FUNDS | DESIGNATED AND RESTRICTED | GRANTS & CONTRACTS | TOTAL |
|---|---|---|---|---|---|
| | **Student Financial Aid** | | | | |
| 142.8 | Undergraduate | 20.1 | 121.7 | 5.9 | 147.7[1] |
| 24.3 | UG Athletic | | 25.1 | | 25.1 |
| 108.4 | Graduate | 21.8 | 80.4 | 11.1 | 113.3 |
| 275.5 | Total | 42.0 | 227.1 | 17.0 | 286.1 |
| | **Other Graduate Support** | | | | |
| 81.6 | Stipends & Health Insurance Surcharge | 18.1 | 43.8 | 25.0 | 86.9 |
| 79.6 | Tuition Allowance | 42.5 | 24.5 | 17.4 | 84.4 |
| 121.8 | RA/TA S&B | 29.6 | 54.1 | 43.6 | 127.3 |
| 282.9 | Total | 90.2 | 122.3 | 86.0 | 298.5 |
| 129.7 | Postdoc Support | 4.4 | 40.5 | 89.3 | 134.2 |
| **688.2** | **Total Student Support** | **136.6** | **390.0** | **192.3** | **718.9** |

[1] This number is $500,000 higher than the Stanford Funded Scholarship Aid figure above because it includes federal grants for non-need-based aid recipients.

Financial Aid line of the budget, for stipends, tuition allowance, and RA and TA salaries of $298.5 million. Consistent with the presentation of Stanford's financial statements, tuition allowance (tuition benefits for RAs and TAs) and RA and TA salary expenses are in the Compensation line, and the stipend amount is in the Other Operating Expenses line of the Consolidated Budget for Operations on page 8. The minimum rate for TA and RA salaries and stipends will increase by 4.5% in 2016/17; tuition allowance expense is expected to increase by 6.0%, higher than the tuition rate increase due to more RAs and TAs, particularly in the School of Engineering and the School of Medicine.

Graduate student support is funded by all of Stanford's various fund types, with the exception of service center funds. In aggregate, unrestricted funds (general funds and designated funds) contribute roughly 35%, restricted funds (gifts and endowment) support about 41%, and grants and contracts supply the remaining 24%. However, the patterns of funding vary substantially within the schools. Not surprisingly, grants and contracts provide a significantly higher proportion of graduate student funding in the research-intensive schools like Medicine and Engineering. The professional schools rely almost exclusively on restricted funds.

While not matriculated as graduate students, Stanford also provides support to postdoctoral research affiliates. Roughly two-thirds of these individuals work in the School of Medicine, and fully two-thirds of support for all postdocs is provided by sponsored research funding. Postdocs are charged a tuition fee of $125 per quarter, which is mostly covered by school funds as well as general funds. They receive a salary or a stipend and health benefits in exchange for their work. The total expense for postdocs is expected to be $134.2 million in 2016/17, an increase of 3.5% over 2015/16.

Schedule 5 in Appendix B details graduate student and postdoc support by source of funds.

### Internal Debt Service

Stanford issues debt securities in the capital market to finance capital projects and to bridge finance the receipt of gifts for capital projects. Internal loans are advanced to projects and amortized over the useful life of the assets in equal installments. These internal loans are assessed the Budgeted Interest Rate (BIR), which is the weighted average rate of the debt issued to finance capital projects and includes bond issuance and administrative costs. The BIR is set at 4.25% for 2016/17, no change from the rate of the past three years.

Internal debt service in the Consolidated Budget is projected to be $204.0 million in 2016/17, a 7.5% increase over 2015/16. It includes debt service incurred on the internal loans used to finance capital projects and bridge-finance the receipt of gifts, but excludes $9.6 million of debt service for the Rosewood Hotel and the Sand Hill Road Office Complex. It also excludes $30.3 million of annual lease payments for rental properties.

The 7.5% increase, or $14.3 million of additional debt service, is mainly due to student housing projects. As a requirement of the new Escondido Village Graduate Residences, existing two-story buildings that house approximately 400 students will be demolished, resulting in the write-off of $4.1 million of debt remaining on these buildings. The opening of the expanded Lagunita Court and the new Highland Hall in the summer of 2015/16 will add about $2.6 of million of debt service. Renovations of the Rains Complex and the row houses, along with a variety of smaller student housing projects, will incur approximately $3 million of incremental debt service next year. In addition to student housing projects, $2.5 million of debt service is anticipated in the Housing Acquisition Initiative (HAI), for an apartment complex that the university has the option to acquire in 2016/17. The remaining increments in debt service are attributed to small-scale service center projects including the IT security and energy retrofit programs.

### Other Operating Expenses

Other operating expenses include all non-salary expenditures in the Consolidated Budget except financial aid and internal debt service, which are detailed separately above. This category, which accounts for nearly 32% of university consolidated expenses, will rise to $1,781.4 million in 2016/17, an increase of 6.8% from the projected level for 2015/16. Much of the increase is attributable to SLAC's multi-year accelerated construction program, the cost of which is expected to increase nearly 27% to $343.4 million in 2016/17. SLAC construction costs are expensed rather than capitalized, because the facilities are owned and depreciated by the federal government.

Exclusive of SLAC construction costs, operating expenses are estimated to increase by 2.9%. Several components have seen large increases since 2009/10. For example, expenses for external professional services, travel and food, repairs and maintenance, along with rentals and leases each have had over 10% growth per year, partially because of the market inflation in the local economy and partially because of increased demand for those services as a result of new programs and business needs. In contrast, other expenses, such as those for capital equipment purchases and library material acquisitions, have maintained more of an inflationary growth, due to relatively stable commodity prices and successful cost control strategies that were implemented.

## OTHER OPERATING EXPENSES

[IN MILLIONS OF DOLLARS]

| MAJOR COMPONENTS | 2015/16 | 2016/17 | PERCENT CHANGE |
|---|---|---|---|
| Materials and Supplies | 383.5 | 396.9 | 3.5% |
| SLAC Non-Salary | 270.7 | 343.4 | 26.9% |
| Professional Services | 198.2 | 208.5 | 5.2% |
| Stipends and Other Aid | 135.9 | 142.7 | 5.0% |
| General Services | 130.8 | 134.1 | 2.5% |
| Capital Equipment and Library Materials | 107.2 | 110.2 | 2.8% |
| Repairs and Maintenance | 109.2 | 105.5 | −3.4% |
| Telecommunications and Utilities | 47.3 | 50.0 | 5.7% |
| Other | 285.7 | 290.1 | 1.5% |
| **Total** | **1,668.5** | **1,781.4** | **6.8%** |

The largest component of other operating expenses is materials and supplies, at $396.9 million, of which 50% is for the purchase of materials and supplies in laboratories and research settings. These expenses, although fluctuating year over year, have grown at an annual rate of 4.0% over the past ten years. They dropped in 2015/16 due to a decrease in lab materials purchased by the Blood Center after its sale to Stanford Health Care, but normal growth is anticipated in 2016/17. Expenses for professional services are the third largest component, totaling $208.5 million. Individual units' needs drive growth in this category.

Also included in other operating expenses are stipends for graduate students and postdoctoral scholars and other non-tuition aid, the total of which is projected to be $142.7 million in 2016/17. Sixty percent of expenses in this category are for graduate student stipend payments, rising at 6.5%, a rate consistent with the three-year average. Expenses related to general and administrative services will grow to $134.1 million. They represent a variety of external payments for non-professional services, including insurance, permits, royalties, and advertising services. In light of the tighter budget outlook in 2016/17, many units deliberately constrained the growth of those services to an inflationary rate of 2.5% in their budgets.

The remaining types of expenses consist of capital equipment and library materials purchases ($110.2 million); external payments for repairs and maintenance of buildings, equipment, and vehicles ($105.5 million); payments for rental and leases ($58.7 million), including those for off-campus buildings and equipment; services purchased from Stanford Health Care and Lucile Packard Children's Hospital ($51.1 million); and external payments for telecommunications and utilities commodities in university buildings ($50.0 million). The growth rates vary among those categories, with hospital charges and lease payments increasing at 4-5% and capital equipment and library materials growing more slowly at 2.8%. Expenses related to repairs and maintenance and utilities will be addressed in more detail in the following sections. The remainder, $180.3 million, includes a variety of expenditures, ranging from travel expenses, to the cost of food associated with residential and dining services, to other property-related expenses.

**Utilities**—In the past few years, Stanford's energy utilities, including electricity, steam/hot water, and chilled water, have been undergoing major changes with the implementation of the Stanford Energy System Innovations (SESI) project. This multi-year project included: a new central energy facility to provide heating and cooling, a new 80-megavolt ampere electrical substation that brings electricity directly from the California energy grid and direct-sourced renewable-energy suppliers, the conversion of 155 campus buildings from steam to hot water, and the installation of 22 miles of piping.

The delivery of utilities to the campus involves three significant components: 1) externally purchased utilities (33%), 2) debt amortization on capital expenditures (43%), and 3) operations and maintenance in support of utility delivery (24%). Land, Buildings and Real Estate (LBRE) provides the majority of campus utilities ($87.2 million) through charge-out rates that are a function of the total costs of the three components noted above and units' consumption of the respective utilities. Units purchase an additional $11.6 million of utilities from external providers, including the City of Palo Alto, Pacific Gas & Electric, Constellation Energy, and the hospitals. Some examples are $5.9 million paid by the School of Medicine for utilities at the Stanford Research Park and Medical Center properties; $2.4 million paid by Residential & Dining Enterprises primarily to cover the

## STANFORD ENERGY SYSTEM INNOVATIONS

Stanford Energy System Innovations (SESI) is a state-of-the-art energy system employing heat recovery, renewable electricity, and advanced controls to serve the power, heating, and cooling needs of Stanford University. It includes a Central Energy Facility (CEF) and electrical substation, energy distribution infrastructure, and market-based energy procurement program. SESI construction started in October 2012 and was completed in March 2015, $10 million under budget at $475 million.

SESI reduces Stanford's greenhouse gas emissions by 68% and water use by 15%, and is forecasted to produce average annual savings of 30%. About 2/3 of the savings is due to system reengineering, and 1/3 is due to Direct Access to electricity markets, resulting in greener and less expensive power than anticipated.

The CEF has reliably supplied campus energy since March 2015. However, the first three months of operation was the "plant commissioning phase" and therefore measurable results against the pro forma did not commence until July 2015. Direct Access electricity procurement has been in effect since March 2015. SESI's performance hinges on three major factors, detailed as follows:

1. CEF efficiency is 4% higher than expected due to higher efficiency equipment.
2. Eighty-three percent of campus heating was supplied by heat recovery as targeted.
3. Average campus electricity cost was $.066/kWh versus $.105/kWh anticipated from PG&E, resulting in savings of $10.9 million for campus electricity consumption of 280 million kWh. This demonstrates the benefits of Direct Access and the ability to take advantage of lower-cost energy markets.

SESI has received highest honors at the regional, state, and national levels for energy economics, efficiency, and sustainability, including the following awards:

- State of California: Governor's Environment and Economic Leadership Award (GEELA), 2016
- Energy Efficiency Global Forum, Alliance to Save Energy: Energy Efficiency Visionary Award, 2016
- Acterra Business and Environmental Award, 2016
- American Institute of Architects (San Francisco) AIA Honor Award, 2016
- Engineering News-Record (ENR) Editor's Choice and Best Energy/Industrial, 2015
- American Institute of Architects (Portland, Oregon) Citation Award, 2015
- APPA: Leadership in Educational Facilities, Effective and Innovative Practice Award, 2013

SESI has also been recognized in numerous publications including Architectural Record, Energy Manager Today, Gizmag, International District Energy Association (IDEA), San Francisco Chronicle, Slate, and Ubergizmo.

utility needs at Munger, Escondido Village, and off-campus housing units; and $1.2 million by the Office of the President and Provost for utilities in common areas and vacant units of Stanford West, Welch Road, and Colonnade apartments.

Campus utility costs will experience two consecutive years of decline, down by $6.8 million (6.3%) in 2015/16 and further by $2.6 million (2.6%) in 2016/17, when the utilities budget will be $98.7 million. The price of electricity dropped by 18% in 2015/16 due in large part to the first full year of Direct Access electricity procurement, leading to savings of $9.3 million in energy costs across all utility systems. However, the price of electricity is projected to increase 6% in 2016/17 due to the introduction of renewable energy for the campus. The Stanford Solar Generation Station, a 68-megawatt peak solar plant that Stanford contracted with SunPower to build, will come online at the end of 2016. This solar plant, along with 5 megawatts of rooftop solar systems being implemented on campus, will provide 53% of Stanford's total electricity use and cost about $9 million in 2016/17. The remaining 47% of Stanford's electricity will come from California grid power, the sources of which are still being determined. While the price of electricity will increase in 2016/17, Stanford's total utility cost will be lower, as the budget will no longer be carrying the write-off costs of the stranded utility assets associated with the old energy system. Approximately $19.8 million of this write-off was absorbed in 2014/15, and the balance of $10.9 million was paid off in 2015/16.

**Operations & Maintenance**—Operations & Maintenance (O&M) includes grounds maintenance, custodial, trash, recycling, elevator repair, gutter maintenance, re-lamping, and other services along with preventive and reactive maintenance on buildings, infrastructure, equipment, and vehicles. The total O&M budget for the university is projected to be $179.6 million in 2016/17, nudging up 1.2% from 2015/16.

The largest component in the O&M budget is the external payment for repairs and maintenance. Totaling $105.5 million in 2016/17, it is a subset of other operating expenses, which is discussed above. It will decrease 3.4% from the 2015/16 level mostly because the Department of Athletics, Physical Education and Recreation (DAPER) will capitalize rather than expense their building repair projects going forward.

The total O&M budget also includes significant expenses that are found in other lines of the Consolidated Budget, including:

1) $40.0 million of internal O&M services performed by the service centers in LBRE, including grounds services for the campus; approximately 50% of the building maintenance; and 100% of the infrastructure maintenance (e.g., storm drains and roads). These service center expenses are reflected in the other internal transfers line of the Consolidated Budget.

2) $17.6 million of labor costs for O&M staff hired by individual units. A significant portion, $14.8 million, resides in two auxiliary units, Residential & Dining Enterprises (R&DE) and DAPER. They employ bargaining unit staff to perform custodial and maintenance services in housing and athletic facilities. The labor costs are captured in the compensation line of the Consolidated Budget.

3) $10.7 million of other non-salary expenses directly associated with the provision of O&M services. They principally include costs for temporary services, contract administration, and equipment rentals for performing O&M. They are dispersed across a variety of other operating expense items in the Consolidated Budget.

4) $5.8 million of services charged for by Stanford Health Care, mostly incurred by the School of Medicine (SoM).

In addition to LBRE, several other units oversee O&M campus-wide. R&DE provides the operations and maintenance for approximately 33% of the campus; SoM for about 11%; and DAPER for approximately 6% of the campus. The Graduate School of Business (GSB) is responsible for operations and maintenance of the Knight Management Center and the new Highland Hall.

In 2016/17, the university will incur about $2.1 million of incremental O&M expenses related to a few new academic and administrative facilities. They include $1.1 million for the Science Teaching and Learning Center; $553,000 for the 408 Panama Mall Office Building; and $325,000 for the maintenance of additional outdoor lighting, pathways, and waterways.

## Transfers

The transfers section of the Consolidated Budget for Operations accounts for the transfers of funds between units, between fund types, and out of the Consolidated Budget altogether, and yields the change in fund balances expected in each fund type and in the Consolidated Budget as a whole. In 2016/17, transfers result in a net reduction from operating results of $165.7 million.

The schools, administrative departments, and central administration authorize movements of funds out of operations to create other types of assets. These assets include student loan funds, funds functioning as endowment (FFE), capital plant projects or reserves, and funds held in trust for independent agencies such as the Howard Hughes Medical Institute, the Carnegie Institution, and the Associated Students of Stanford University. These transfers to and from assets vary widely from year to year, and a single transaction can greatly affect these numbers and the resulting bottom line of the Consolidated Budget. Using information provided by budget units, and combining that information with central administration commitments, the Consolidated Budget for Operations adds or subtracts these transfers from the operating results (revenues less expenses).

- **Transfers to Endowment Principal**—This line includes transfers of expendable funds to endowment principal, creating FFE, or withdrawals of FFE to support operations. In 2016/17 Stanford is projecting that a net $36.9 million will be transferred to FFE from current operating funds. This figure is significantly lower than the actual results over the past several years for two main reasons. The first is the assumption that $34 million will be transferred from the Tier II Buffer, which is FFE, to the School of Medicine to backstop the expected shortfall in their EFP payout. The second is that endowment payout on existing funds will be flat in 2016/17, and many units plan to draw down reserves to cover unfunded expense growth, thereby reducing excess funds that would have otherwise been invested in FFE during the year-end process.

- **Transfers to Plant**—The transfers in this category are primarily for capital projects. Total transfers to plant of $159.1 million are planned for 2016/17. Roughly $100 million of this total are transfers made from central university funds and include $69 million from the Capital Facilities Fund (CFF) and the Facilities Reserve to support plant projects (see more on the CFF in Chapter 4), and $20 million for home purchases as part of the Housing Acquisition Initiative and for other home purchases for faculty. Additionally, Land, Buildings and Real Estate will transfer $10 million from the Planned Maintenance Program into planned improvement projects; the School of Medicine plans to transfer $17 million for the ChEM-H/SNI building and the Clinical Excellence Center; the Dean of Research will support the ChEM-H/SNI building with a transfer of $7.2 million; and $20 million will be transferred in support of the Bass Biology building, half from the provost and half from H&S. The remainder is made up of smaller amounts transferred to capital projects out of other units.
- **Other Internal Transfers**—Additional financial activity affects the net results of the Consolidated Budget, including internal revenue and internal expense, which are generated from those charges that are made between departments within the university for services provided through charge-out mechanisms. Communication services provided by Business Affairs IT to university departments are one type of internal revenue and expense. Another is the charge that the Department of Project Management (the group that manages construction projects on campus) allocates to capital projects that use their services. These charges contribute to the revenue and expense of individual departments and fund types but, ultimately, are netted against each other in the presentation of the Consolidated Budget to avoid double counting. There is, however, a net $30.3 million of internal revenue flowing into the Consolidated Budget, primarily from capital plant funds, which are outside the Consolidated Budget, into service centers and other funds within the Consolidated Budget. Additionally, this amount includes transfers of current funds to student loan funds, such as the loan forgiveness programs in Graduate School of Education and Law. It also includes any transfers from living trusts and pending funds.

## GENERAL FUNDS

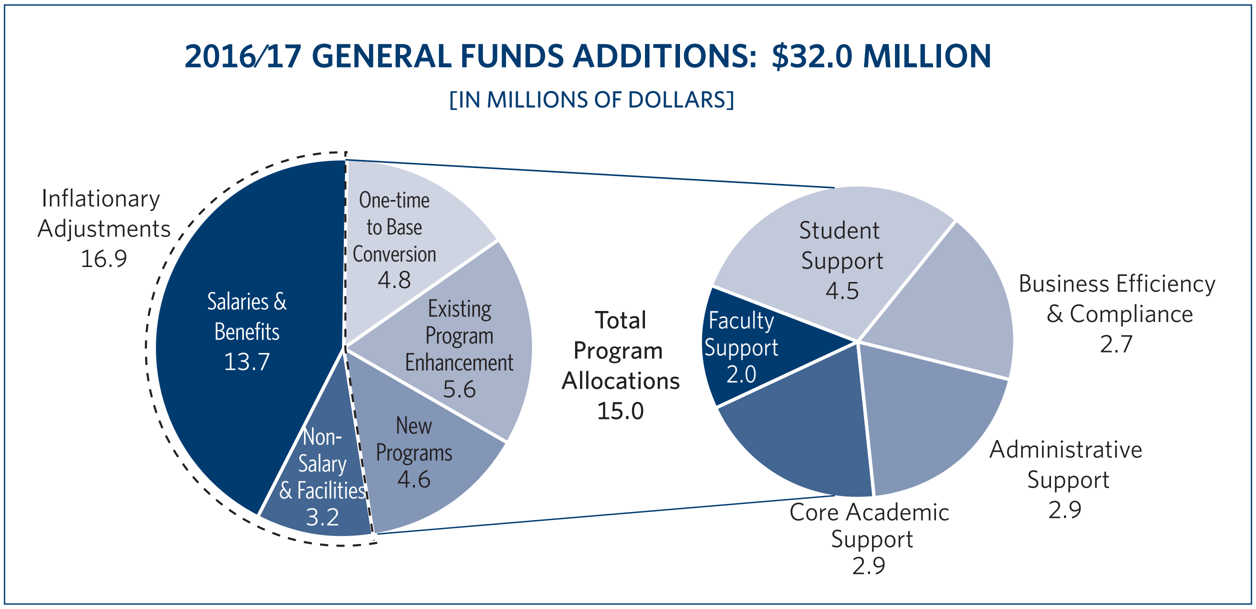
The general funds budget is an essential element of the Consolidated Budget because general funds can be used for any university purpose, and they support the necessary administration and infrastructure for all core activities at the university. The main sources of these funds are student tuition, indirect cost recovery from sponsored activity, unrestricted endowment income, and income from the expendable funds pool (EFP). Each school receives an allocation of general funds, which supports both academic and administrative functions. Administrative units are supported almost entirely by general funds.

General funds revenue in 2016/17 is projected to be $1,267.3 million, a decrease of 3.6%, or $46.8 million below the expected level for 2015/16. The decrease is driven by the loss of $84.5 million of payout on the general funds portion of zero-return funds in the EFP, based on the estimated 0.5% investment return in 2015/16. In 2016/17, income from EFP to general funds is projected to be only $9.8 million, plunging from an average of $94 million over the last three years. EFP payout is discussed in detail in the earlier section on investment income. The loss of EFP payout to general funds will be offset by a $25.0 million increase in student income, largely reflecting increased tuition rates, as well as smaller increases, totaling $12.7 million, in indirect costs, health care services, endowment income, and other external income. More importantly, the shortfall is mitigated by the policy option to suspend the transfer of $81.3 million of general funds to the Capital Facilities Fund, thereby avoiding the need for budget reductions.

### 2016/17 NON-FORMULA GENERAL FUNDS

Per negotiated formula arrangements, $202.4 million of the general funds will flow to the School of Medicine, the Graduate School of Business, and other formula units. In addition, $49.4 million of general funds are set aside for the facilities reserve, the housing reserve, and other smaller items. The remaining $1,015.5 million of general funds revenue is controlled and allocated by the provost to the non-formula units.

During the annual general funds budgeting process, each budget unit meets with the Budget Group, the provost's advisory body comprising of senior faculty and administrators, to 1) review the programmatic goals and priorities of the




organization; 2) report on the financial status and progress of current programs; 3) discuss faculty and student growth and funding plans; and 4) submit requests for incremental general funds. At the end of the process, the provost makes allocation decisions based on the units' presentations, consultation with the Budget Group, and a final forecast of available general funds.

This year's process was heavily influenced by the uncertainty in the financial markets and the potential impact low investment returns have on available general funds. Because actual general funds in 2016/17, particularly the EFP and Tier I Buffer payouts, will not be determined until the end of the current year, the Budget Group decided to take a cautious approach.

The highest priority was to maintain the university's competitive salary positions, and $13.7 million was allocated to fund faculty and staff salary programs and associated fringe benefits; $3.2 million was allocated for general non-salary and facilities expenditures. No inflationary allocations were made to most non-salary expenditures, and facilities increases are low compared to prior years as the result of lower utilities costs. An additional $2.6 million of incremental general funds will support O&M, utilities, and debt service on new facilities in 2016/17.

The Budget Group prudently limited allocations to new programs and incremental staff positions and focused on continuing and strengthening existing programs. Of the total $15.0 million of incremental general funds allocated to unit programs, $4.8 million is distributed to existing programs presently supported on one-time funding, and $5.6 million is provided to enhance current programs that align with the university's core missions. The remainder, about one-third of the available funds, will fuel the start-up of new programs.

The incremental allocations are reflected in the pie chart above.

Incremental general funds for 2016/17 are fairly evenly dispersed among student, academic, and administrative functional areas: $4.5 million of funding will bolster student service programs; $4.9 million will support faculty and core academic programs; and $5.6 million will be spent on administrative initiatives, including those that improve business efficiency and compliance.

In allocations to student support programs, high priority was given to Title IX initiatives, which will receive $2.7 million to strengthen university-wide efforts to combat sexual assault, violence, and discrimination according to recommendations from the 2015/16 university task force on sexual assault. Among faculty and academic programs that received incremental support, focal points were on existing core initiatives that enable collaboration and enhance research competitiveness. The recently organized Vice Provost for Teaching & Learning received $1.0 million in base general funds, replacing the president's one-time startup support. A number of centers in the Dean of Research area, including the Office of International Affairs, the digital humanities

# PROVOST'S TASK FORCE ON SEXUAL ASSAULT – BUDGETARY IMPLICATIONS

In the summer of 2014 the university launched a task force on sexual assault policies and practices. The group was charged by the provost to make recommendations in three areas: the support and response provided to students in the wake of an incident of sexual violence; the policies and procedures to investigate and adjudicate cases of sexual violence; and educational efforts aimed at the prevention of sexual violence.

The Task Force chaired by Stanford Law School Dean Elizabeth Magill and then ASSU President Elizabeth Woodson ('15), included 16 other faculty, staff and students. The major recommendations of the report included the revision of the student discipline process for cases of sexual assault, the improvement and streamlining of support services for students who have had experiences of sexual violence and most importantly, the improvement of education and prevention programs.

In this budget we are supporting the recommendations of the task force with $2.7 million in incremental general funds. The funds will address the following areas:

- The most significant change to our support resources includes the creation of the Confidential Support Team, a group of counselors trained to deal with cases of sexual assault or harassment, relationship violence, and stalking. These counselors provide a rapid response to individual students and also conduct workshops and other programs for groups who make such requests. The program has been very well received.
- The new adjudication procedures recommended by the Task Force represent a significant revision to the preceding process for cases of student discipline. There is a large group of specially trained panelists to review cases. The panels include only three members (as opposed to the former five) and do not include any undergraduate students. Panelists will serve for a minimum of two years and are expected to be on call for one week each month. Cases are investigated by the Title IX Office, which has expanded to include several trained investigators. Students who are going through the investigation and hearing process, either as a complainant or a responding party, have access to nine hours of legal counseling paid for by Stanford. The process also makes use of evidentiary specialists (non-Stanford personnel) who will render decisions on what evidence is brought forth in a hearing. Finally, the outcome in the process specifies that in all cases, a panel is to consider expulsion as a sanction. In the most egregious cases, violations of our sexual assault policy, the expected sanction is expulsion of the student found responsible by a unanimous vote of the panel.
- The last set of recommendations and perhaps the most important ones are around improved education for the campus community. The Sexual Assault and Relationship Abuse Education and Prevention Office (SARA) is the locus of educational efforts for students. All incoming undergraduate and graduate students receive online training about sexual assault. This training was also rolled out to all graduate students in the current year 2015/16. The office is developing a peer education program that will facilitate in-resident education to all incoming freshmen beginning in the fall 2016. The SARA office is also engaged in training a cadre of fraternity and sorority students in violence intervention and prevention activities, and a similar program for student athletes for bystander intervention.

program, and the Stanford Research Computing Center together received $1.3 million. In addition, $1 million was allocated to address faculty salary market equity and retention issues in two schools.

In the administrative areas, incremental general funds are geared towards managing new business needs and increasing the breadth and depth of functional areas in the face of rising operational complexities. Significant funds, $1.3 million, are provided to a variety of new business initiatives run by the Business Affairs unit, aiming to foster compliance and achieve long-term savings. They include expanding the spend management pilot and license fees related to implementing a new tool for better compliance controls of expenditures. Base funds, close to $1 million, will support the rollout of two new enterprise systems on campus: the Tidemark budgeting system and the ADAPT (Alumni and Development Application Transformation) system. Additional resources, $800,000, are provided to the Office of Development to maintain existing fundraising units for the arts programs and interdisciplinary institutes and to strategically grow principal gift portfolios.

## PROJECTED STATEMENT OF ACTIVITIES

Stanford University, as a not-for-profit institution and a recipient of restricted donations, uses a fund accounting approach to manage itself internally. For financial statement purposes Stanford also presents a Statement of Activities, prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Statement of Activities summarizes all changes in net assets during the year (both operating and non-operating).

The table on the next page compares the Consolidated Budget for Operations with the projected operating results section of the Statement of Activities. Cash resources are classified into fund groups, which are subject to different legal and management constraints.

There are four different categories of funds:

1) Current Funds, which include revenue to be used for operating activities—e.g., tuition revenue, sponsored research support, endowment payout, and other investment income;
2) Endowment Principal Funds, which include all of Stanford's endowment funds, both those restricted by the donor, and those designated as endowment funds by university management;
3) Plant Funds, which include all funds to be used for capital projects, such as construction of new facilities or debt service; and
4) Student Loan Funds, which include those funds to be lent to students.

The Consolidated Budget for Operations includes only current funds, and reflects the sources and uses of those funds on a modified cash basis that more closely matches the way the university is managed internally. Within these current funds, specific funds are further classified by their purpose and level of restriction. The Consolidated Budget for Operations also reflects the transfer of current funds for investment in other fund groups: funds functioning as endowment, student loan funds, and plant funds. For example, a school may choose to transfer operating revenue to fund a future capital project. Similarly, a department may decide to move unspent current funds to the endowment, either to build capital for a particular purpose, or to maximize the return on those funds as a long-term investment. In both these instances, these funds are no longer available to support operations, so they decrease the Consolidated Budget for Operations operating results. These transfers, however, have no impact on the Statement of Activities operating results, as the net assets of the university have not changed (one form of asset has been converted into another type of asset).

### Converting the Consolidated Budget into the Statement of Activities

To convert the Consolidated Budget to the Statement of Activities under GAAP, certain revenue and expense reclassifications, transfers, and adjustments are necessary.

The following adjustments are made to the Consolidated Budget to align it with the Statement of Activities:

a) Eliminate Fund Transfers. The Consolidated Budget includes transfers of $202.9 million of current funds to other fund groups, including plant, student loans, and funds functioning as endowment. The transfers out are added back for the Statement of Activities.

b) Remove Capital Equipment purchases. The Consolidated Budget considers purchases of capital equipment to be expense. For GAAP purposes, the cost of capital equipment is recorded as an asset on the Statement of

## COMPARISON OF CONSOLIDATED BUDGET AND STATEMENT OF ACTIVITIES, 2016/17

### Unrestricted Net Assets

[IN MILLIONS OF DOLLARS]

| STATEMENT OF ACTIVITIES | | | | FISCAL YEAR 2016/17 | | |
|---|---|---|---|---|---|---|
| 2014/15 ACTUALS | 2015/16 JUNE 2015 BUDGET | 2015/16 PROJECTED YEAR-END | | PROJECTED CONSOLIDATED BUDGET | ADJUSTMENTS | PROJECTED STATEMENT OF ACTIVITIES |
| | | | **Revenues and Other Additions** | | | |
| | | | *Student Income:* | | | |
| 330.9 | 341.2 | 342.0 | Undergraduate Programs | 353.9 | | 353.9 |
| 329.0 | 339.9 | 343.2 | Graduate Programs | 356.4 | | 356.4 |
| 164.3 | 167.8 | 173.0 | Room and Board | 185.7 | | 185.7 |
| (260.5) | (280.5) | (275.6) | Student Financial Aid [e] | | (286.1) | (286.1) |
| 563.7 | 568.4 | 582.5 | Total Student Income | 896.0 | (286.1) | 609.9 |
| | | | *Sponsored Research Support:* | | | |
| 713.8 | 715.7 | 762.9 | Direct Costs—University | 788.2 | | 788.2 |
| 242.6 | 241.5 | 253.6 | Indirect Costs | 262.3 | | 262.3 |
| 956.3 | 957.2 | 1,016.5 | Total University Research Support | 1,050.5 | | 1,050.5 |
| 430.4 | 507.5 | 496.8 | SLAC | 590.6 | | 590.6 |
| 840.9 | 882.4 | 953.7 | Health Care Services [f,k] | 1,176.8 | (119.3) | 1,057.5 |
| | 230.0 | | Expendable Gifts In Support of Operations | 224.7 | | 224.7 |
| | 125.0 | | Net Assets Released from Restrictions | 125.0 | | 125.0 |
| 391.8 | 315.0 | 355.0 | Gifts & Net Assets Released from Restrictions | 349.6 | 0.0 | 349.6 |
| | | | *Investment Income:* | | | |
| 1,058.0 | 1,152.4 | 1,149.6 | Endowment Income [j] | 1,178.1 | 0.2 | 1,178.3 |
| 218.4 | 192.1 | 186.3 | Other Investment Income [g] | 105.6 | (46.2) | 59.3 |
| 1,276.4 | 1,344.5 | 1,371.9 | Total Investment Income | 1,283.6 | (46.1) | 1,237.6 |
| 498.8 | 519.4 | 528.5 | Special Program Fees and Other Income [j] | 533.6 | 5.2 | 538.8 |
| **4,958.4** | **5,094.5** | **5,268.8** | **Total Revenues** | **5,880.7** | **(446.3)** | **5,434.5** |
| | | | **Expenses** | | | |
| 2,848.7 | 3,083.7 | 3,142.9 | Salaries and Benefits [d,g,j] | 3,322.6 | 42.6 | 3,365.2 |
| | | | Financial Aid [e] | 286.1 | (286.1) | 0.0 |
| 109.8 | 99.9 | 94.7 | Debt Service [h] | 204.0 | (100.3) | 103.8 |
| | | | Capital Equipment Expense [b] | 110.2 | (110.2) | |
| 334.6 | 339.3 | 343.7 | Depreciation [c] | | 350.6 | 350.6 |
| 1,352.6 | 1,470.4 | 1,498.2 | Other Operating Expenses [f,g,j] | 1,671.2 | (64.9) | 1,606.3 |
| **4,645.7** | **4,993.3** | **5,079.5** | **Total Expenses** | **5,594.1** | **(168.3)** | **5,425.8** |
| **312.6** | **101.2** | **189.3** | **Revenues less Expenses** | **286.6** | **(278.0)** | **8.6** |
| | | | **Transfers** | | | |
| | | | Additions to Endowment Principal [a] | (36.9) | 36.9 | |
| | | | Other Transfers to Assets [a] | (166.0) | 166.0 | |
| | | | Net Internal Revenue/Expense [i] | 37.2 | (37.2) | |
| **0.0** | **0.0** | **0.0** | **Total Transfers** | **(165.7)** | **165.7** | **0.0** |
| **312.6** | **101.2** | **189.3** | **Excess of Revenues Over Expenses After Transfers** | **121.0** | **(112.4)** | **8.6** |

Financial Position. As a result, $110.2 million is eliminated from Consolidated Budget expenses.

c) Record Depreciation expense for the current year's asset use. The Statement of Activities includes the current year's depreciation expense related to capital assets. Depreciation expense includes the depreciation of capital equipment and other capital assets, such as buildings and land improvements. This adjustment adds $350.6 million of expense to the Statement of Activities.

d) Adjust Fringe Benefit expenses. The Consolidated Budget reports the fringe benefits cost based on the fringe benefits rates charged on salaries; the rates may include over- or under-recovery of actual costs from prior years. The Statement of Activities reflects only current year expenses for fringe benefits, so the over- or under-recovery amount has to be removed from Salaries and Benefits. The Statement of Activities also includes accruals for certain benefits, such as pension and post-retirement benefits that are required by GAAP to be shown as expense in the period the employee earns the benefit. For 2016/17, GAAP expenses are expected to be higher than budgeted expenses by $69.8 million.

e) Reclassify Financial Aid. GAAP requires that the tuition portion of student financial aid be shown as a reduction of student revenue. In the Consolidated Budget, financial aid is reported as an operating expense. Accordingly, $286.1 million of student financial aid expense is reclassified as a reduction of student revenues in the Statement of Activities.

f) Adjust for Health Care Services. For GAAP purposes, health care services revenues received from the hospitals are reported net of expenses that the hospitals charge the university. The Consolidated Budget presents these revenues and expenses on a gross basis. This adjustment results in a reduction of $51.1 million in both Other Operating Expenses and health care services revenues, with no net change to the bottom line.

g) Adjust for Internal Investment Management Expenses. Included in the Consolidated Budget revenues and expenses are $46.2 million of expenses of the Stanford Management Company and the real estate operations within Land, Buildings & Real Estate. For GAAP purposes, these expenses, incurred as part of the generation of investment returns, are netted against investment earnings. This adjustment reduces Other Investment Income, as well as reducing $29.9 million from compensation and $16.3 million from non-compensation expenses, with no net change in the bottom line.

h) Adjust for Debt Service. The Consolidated Budget includes all internal debt service. It reflects the use of funds to amortize principal and interest. On a GAAP basis, interest expense is reported in the Statement of Activities and repayment of debt principal is reported as reductions in Notes and Bonds Payable in the Statement of Financial Position. It also includes debt service for the Rosewood Hotel, which is not included in the Consolidated Budget for Operations. Therefore, Internal Debt Service expense must be reduced by the amount of internal principal amortization. In addition, adjustments must be made to account for the difference between internal and external interest payments. These combined adjustments reduce internal debt service expense by $100.3 million.

i) Eliminate Net Internal Revenue/Expense. The Statement of Activities includes the activity of all fund types, while the Consolidated Budget does not include plant funds. Therefore, the net inflow of $37.2 million from plant funds into the Consolidated Budget for purchases of internal services is eliminated.

j) Include Stanford Sierra Camp. The Statement of Activities includes the revenues and expenses of the Sierra Camp, a separate limited liability corporation run by the Alumni Association, $5.4 million in revenues and $5.2 million in expenses are added ($2.7 million in Salaries and Benefits and $2.5 million in Other Operating Expenses) to the Consolidated Budget for Operations.

k) Eliminate Hospital Equity Transfers. Payments received from the hospitals for which no services are required to be provided by the university are considered transfers of equity between the university and the Hospitals and are not included in operating revenue in the Statement of Activities. These include contributions by Hospital construction projects to the Stanford Infrastructure Program and performance bonuses related to Physician Service Agreements. In the Consolidated Budget, they show as health care services income. This adjustment removes $68.2 million of revenue.

In summary, the impact of these adjustments decreases the Consolidated Budget's projected $121.0 million surplus by $112.4 million, resulting in a projected surplus of $8.6 million in the Statement of Activities.