CHAPTER 1
CONSOLIDATED BUDGET FOR OPERATIONS

In this chapter we review the details of the 2017/18 Consolidated Budget for Operations, describe the general funds allocation process and results, and present a forecasted Statement of Activities.

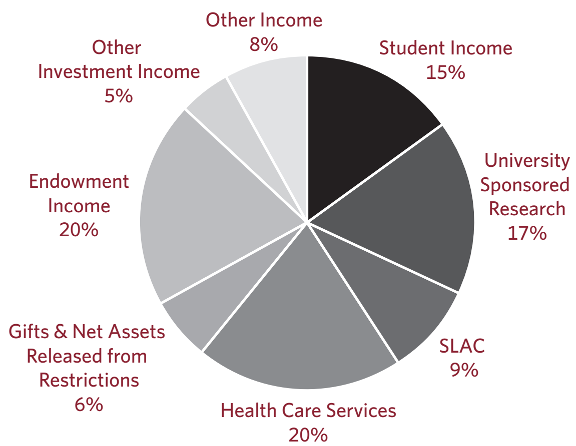
CONSOLIDATED BUDGET FOR OPERATIONS

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 Stanford Children's Health.

The 2017/18 Consolidated Budget for Operations shows total revenue of $6,261.4 million and expenses of $5,853.3 million, resulting in a net operating surplus of $408.1 million. After projected transfers of $242.8 million, predominately to plant funds, the Consolidated Budget shows a surplus of $165.4 million.

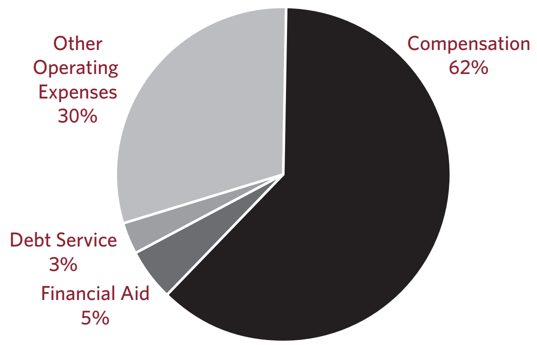
Total revenues in 2017/18 are projected to increase $296.8 million or 5.0% over revenues expected in 2016/17. As has been the case for several years, the total growth belies the variability among the component revenue sources. Health care services revenue is expected to continue at double-digit growth, as Stanford Medicine expands both on campus and in new faculty practice locations throughout the Bay Area. Total investment income is also expected to increase sharply,

2017/18 CONSOLIDATED REVENUES: $6,261.4M [1]



[1] Net Revenues after Transfers: $6,018.7 Million

2017/18 CONSOLIDATED EXPENSES: $5,853.3M



CONSOLIDATED BUDGET FOR OPERATIONS, 2017/18

[IN MILLIONS OF DOLLARS]

2015/16 ACTUALS	2016/17 BUDGET JUNE 2016	2016/17 PROJECTED ACTUALS		GENERAL FUNDS	DESIGNATED	RESTRICTED	GRANTS AND CONTRACTS	AUXILIARY & SERVICE CENTER ACTIVITIES	TOTAL
			Revenues and Other Additions						
342.3	353.9	356.7	Undergraduate Programs	369.2					369.2
340.5	356.4	360.1	Graduate Programs	366.6	7.2				373.7
174.1	185.7	186.5	Room and Board					194.5	194.5
857.0	896.0	903.4	Student Income	735.8	7.2	0.0	0.0	194.5	937.4
753.6	788.2	778.8	Direct Costs—University				806.8		806.8
251.4	262.3	266.8	Indirect Costs	278.0					278.0
1,005.0	1,050.5	1,045.6	University Sponsored Research	278.0			806.8		1,084.8
447.8	590.6	644.2	SLAC Sponsored Research				559.4		559.4
1,033.9	1,176.8	1,122.8	Health Care Services	36.4	1,163.5	12.5		40.9	1,253.2
391.1	349.6	391.2	Gifts and Net Assets Released from Restrictions	3.8		387.4			391.2
1,147.5	1,178.1	1,176.9	Endowment Income	261.3		982.1			1,243.4
258.0	105.6	172.2	Other Investment Income	119.4	153.2	2.4	0.2	0.5	275.8
1,405.6	1,283.6	1,349.1	Investment Income	380.7	153.2	984.5	0.2	0.5	1,519.2
540.0	533.6	508.4	Special Program Fees and Other Income	16.1	339.6	4.4	0.2	155.9	516.2
5,680.4	**5,880.7**	**5,964.6**	**Total Revenues**	**1,450.7**	**1,663.5**	**1,388.8**	**1,366.7**	**391.7**	**6,261.4**
			Expenses						
3,122.8	3,322.6	3,359.2	Compensation	950.4	1,091.8	574.7	726.9	277.6	3,621.5
269.5	286.1	286.0	Financial Aid	42.9	6.3	231.7	17.4		298.2
185.2	204.0	199.1	Internal Debt Service	36.0	47.7	0.5		115.1	199.3
1,541.0	1,781.4	1,780.7	Other Operating Expenses	323.2	287.6	269.4	573.1	280.9	1,734.2
5,118.5	**5,594.1**	**5,625.0**	**Total Expenses**	**1,352.5**	**1,433.4**	**1,076.4**	**1,317.4**	**673.7**	**5,853.3**
561.9	**286.6**	**339.6**	**Operating Results**	**98.1**	**230.1**	**312.4**	**49.3**	**(281.9)**	**408.1**
			Transfers						
(125.6)	(36.9)	(119.2)	Transfers from (to) Endowment Principal		(83.5)	(26.7)			(110.2)
(254.6)	(159.1)	(98.5)	Transfers from (to) Plant	(61.9)	(90.2)	(2.3)	(7.6)		(162.0)
33.9	30.3	30.6	Other Internal Transfers	(10.8)	30.7	(228.9)	(41.7)	280.1	29.4
(346.2)	**(165.7)**	**(187.1)**	**Total Transfers**	**(72.7)**	**(143.0)**	**(257.8)**	**(49.4)**	**280.1**	**(242.8)**
215.7	**121.0**	**152.5**	**Operating Results and Transfers**	**25.5**	**87.1**	**54.6**	**(0.0)**	**(1.8)**	**165.4**
2,990.3	3,237.9	3,205.9	Beginning Fund Balances	524.0	1,440.1	1,353.2	20.1	21.0	3,358.4
3,205.9	3,358.9	3,358.4	Ending Fund Balances	549.5	1,527.2	1,407.8	20.1	19.2	3,523.8

as normal investment returns in the current year drive the return to full payout on the expendable funds pool in 2017/18. Payout on the expendable funds pool was roughly half of the full amount in 2016/17. Sponsored research support is projected to decline by 2.7%, with SLAC totals decreasing 13.2% due to a significant decline in construction activity. University sponsored research, exclusive of SLAC, is budgeted to increase by 3.8%. Student income is projected to grow slightly faster than the approved tuition rate increase. Excluding SLAC, total revenues in 2017/18 are projected to grow by 7.2%.

Total expenses in 2017/18 are forecast to grow by 4.1% over the projected year-end results for 2016/17, and by 6.3% excluding SLAC. SLAC expenses are expected to decline by 13.2% overall, driven by a $91.9 million, or 30%, decrease in construction activity compared to 2016/17. A very competitive salary program, targeted market-based salary increases for some faculty and staff, and continued headcount growth combine to push total compensation expenses up by 8.2%, excluding SLAC. Growth in general operating expenses is expected to be comparable to that seen in past years.

The table on the facing page shows the projected consolidated revenues and expenses for 2017/18. For comparison purposes, it also shows the actual revenues and expenses for 2015/16 and both the budget and the year-end projection for the current fiscal year, 2016/17. 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 3.8% in 2017/18 to $937.4 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 $742.9 million in tuition and fee revenue in 2017/18, a 3.6% increase over 2016/17. 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 revenue will increase by 3.8%, a slightly higher pace than undergraduate tuition, due to continued modest growth in total graduate student enrollment. While tuition and fees will

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.

contribute only 11.9% of Stanford's total revenue in 2017/18, it will comprise 50.1% of general funds. As such, it is a vital source of unrestricted revenue. In addition to supporting faculty and staff salaries, student services, financial aid, 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 2017/18, approved by the Board of Trustees in February, is 3.5%, which results in a rate of $48,987 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 2016/17, 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 first year MBA students, the School of Engineering, the School of Law, and the School of Medicine.

Room and Board—Total room and board income is projected to be $194.5 million in 2017/18, increasing by 4.3% over the current year. The re-opening of the Schwab Residential Center, which is currently under renovation, will push room and board revenue in 2017/18 to rise somewhat faster than the rate increase, as more graduate students are housed.

In February, the Trustees approved a combined undergraduate room and board rate increase of 3.5% for 2017/18, bringing the undergraduate rate to $15,112. The undergraduate room rate will increase by 4.4%, and the 19-meal board plan will increase by only 2.2%. The graduate housing room rate will increase by 4.75%. 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 2016/17 dropped from 11th to 12th out of 17. The 2017/18 recommended rate increases will allow Residential and Dining Enterprises (R&DE) to maintain Stanford's high-quality residential and dining programs by supporting debt service on new and renovated facilities, inflationary impacts on operating costs (including the higher cost of attracting and retaining labor, elevated utility rates, and the increased security measures in technology), and planned escalation in asset renewal.

Sponsored Research and Indirect Cost Recovery

University

University sponsored research revenue, excluding SLAC, is forecast to be $1,084.8 million in 2017/18, a 3.8% increase from 2016/17. The amount includes direct research revenue from external grants and contracts ($806.8 million) as well as reimbursement for indirect costs incurred by the university in support of sponsored activities ($278.0 million).

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

	2016/17	2017/18	PERCENT CHANGE
Federal Directs	538.2	548.2	1.9%
Non-Federal Directs	240.6	258.6	7.5%
Total Directs	**778.8**	**806.8**	**3.6%**
Total Indirects	**266.8**	**278.0**	**4.2%**
Total Research	**1,045.6**	**1,084.8**	**3.8%**

Currently 69% of university research funding is provided by the federal government, and that proportion has been shrinking from 75% five years prior. Overall, federal direct research revenue is expected to reach $548.2 million in 2017/18, a 1.9% increase over 2016/17. Behind this modest increase are very contrasting growth trajectories between the School of Medicine (SoM) and other academic units. Over the last five years, the SoM has had close to 5% annual growth in federal research funding, bolstered by new research activity brought by incremental faculty and stable growth of support from the National Institutes of Health (NIH). Although the recent federal budget proposals may leave the university research activity open to risk, the SoM is confident that it will continue to hold a strong position compared to peer institutions under the current research climate and projects a 5.0% increase in the 2017/18 federal research budget. On the contrary, federal research funding for other academic units has been languishing in the past five years, with a steady decline of about 2% a year. In 2016/17, non-medical schools have seen less funding support across all federal sponsors except the NIH. The National Science Foundation, in particular, was down by 7% as of the first six months of the year. Those units are concerned over uncertainties with the federal research outlook, and many project a small decline or a relatively flat volume compared to the prior year. The only exception is the School of Engineering, anticipating increased spending in the Bioengineering Department due to new faculty hires. Overall, federal research support for schools other than SoM is forecast to decrease by 2.5%.

On a brighter side, the university has benefited from solid and consistent growth in non-federal direct research, averaging about 8.5% a year over the last five years, and the trend is comparable between the SoM and other academic units. In 2017/18, non-federal direct research will reach $258.6 million, a 7.5% increase over the prior year. Non-federal research activity will likely continue to be energized by the increased investment from U.S. corporations, foundations, and other non-profit organizations. They together fund about 72% of the total non-federal research at Stanford, and their volumes escalated by 10% in the first six months of 2016/17. Among schools, the SoM forecasts an 8.9% increase, in line with the over 9% annual growth for the school in the past five years. Despite an estimated 30% plunge in the funding from the California Institute for Regenerative Medicine (CIRM) in 2016/17, the SoM anticipates the funding from the state's stem cell research agency to remain flat in 2017/18. In the Dean of Research, funding for the Global Climate and Energy Project, which signaled declines in both 2015/16 and 2016/17, will extend into 2017/18 and is anticipated to remain flat. Within non-medical academic units, growth in the range of 4% to 6% is anticipated. The only variation lies in the Graduate School of Education, which estimates a 4% decline in anticipation of multiple faculty retirements in 2017/18, following several years of robust growth in the school's non-federal research areas.

Indirect cost recovery will total $278.0 million in 2017/18, increasing by 4.2%. The facilities & administration rates (or indirect cost rate) will be the same as the rates in the prior year, with the on-campus organized research rate at 57.0%. The growth in indirect cost recovery will slightly outpace direct research volume for two reasons. First, fewer capital equipment purchases are anticipated in 2017/18, a type of research activity exempt from indirect cost recovery. As a result, a higher portion of direct research funding in 2017/18 will be assessed the indirect cost rate. Second, the SoM projects indirect costs recovered from the animal care facility to be 8% higher in 2017/18.

SLAC

Stanford operates SLAC National Accelerator Laboratory (SLAC), a federally funded research and development center, for the Department of Energy (DOE). The DOE funds over 95% of SLAC's budget. SLAC's sponsored research budget of $559.4 million in 2017/18 has two components: SLAC facility operations, including research & development activities, and DOE-funded construction projects. The facility operations budget is anticipated to increase modestly, reaching over $320 million. The 2017/18 construction budget is projected to decline approximately $90 million from a high of $330 million in 2016/17, due primarily to various sub-contract activities winding down. SLAC's $1 billion upgrade to the Linac Coherent Light Source (LCLS) is still on track with an anticipated $190 million in funding again next year. SLAC research and construction programs are discussed in more detail in Chapter 2.

Health Care Services

Strong growth is projected to continue into 2017/18 for health care services income with a budget of $1,253.2 million, or an 11.6% increase over the current year. Health care services revenue is expected to continue to grow rapidly over 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 Stanford Children's Health. 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 more than 90% of the university's total health care services revenue, the majority of which is paid by Stanford Health Care and Stanford Children's Health 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 who are directly involved in the clinical mission. In addition the funds flow agreements cover non-compensation expenses of the clinical mission and provide support of the academic and research mission. Clinical revenues in 2017/18 are projected to increase 12.9% to $1,011.8 million. An additional $133.6 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 $107.8 million in health care services revenue represents payments from the hospitals to other parts of the university: $28.7 million to Business Affairs, primarily for communications services; $25.4 million to Land, Buildings and Real Estate for operations and maintenance and utilities, the Marguerite shuttle service, and parking permits; $12.0 million to the Office of Development for hospital fundraising support; $11.4 million to the Office of the General Counsel for legal services; and $23.5 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 budgeted to be $391.2 million in 2017/18, comparable to the amounts in 2015/16 and 2016/17. Because there is substantial volatility in the timing of gifts, in particular the use of pending gifts, a zero growth assumption is prudent for planning purposes.

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.

Investment Income

In 2017/18, investment income is expected to increase by $170.1 million to $1,519.2 million, a 12.6% increase over 2016/17. This total includes endowment payout to operations as well as other investment income described below.

Endowment Income—Endowment payout to operations in 2017/18 is expected to be $1,243.4 million, an increase of 5.7% over 2016/17. 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.

The payout to an individual endowment fund invested in the merged pool in 2017/18 will increase by only 1.6%, following a year of no growth. Total merged pool payout, however, is expected to increase by 5.2% due to new gifts and pledges to endowment principal during the remainder of the current year and throughout 2017/18, as well as transfers by schools and departments of $119.2 million from expendable balances to endowments at the end of the current fiscal year. We are also expecting to reinvest $275 million to the Tier I Buffer at the end of the current fiscal year, resulting from expendable funds pool returns in excess of the 2016/17 expendable funds pool payout. Together these additions contribute roughly $35 million to endowment payout in 2017/18.

The 2017/18 proposed spending rate (payout per share) for the MP is derived from the application of the university's smoothing rule. The smoothing rule is used to dampen the impact on the budget of annual fluctuations in the market value of the endowment, thereby providing stability to budget planning. Stanford's smoothing rule uses the approved target payout rate of 5.5% to calculate a target payout per share in the current year, 2016/17. 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 payout per share for 2017/18 is derived by increasing the smoothed payout per share by the long-term growth factor of 3.5%. Finally, the 2017/18 proposed payout per share is expected to provide an overall endowment payout rate that is within the range of 4.0% to 6.0%. The spending rate was approved by the Trustees at the February 2017 meeting.

Of the total endowment income, $261.3 million or 21% is unrestricted and 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. The unrestricted portion of endowment income is expected to increase at a much faster pace (12.5%) in 2017/18 than the restricted portion (4.0%), driven by the reinvestment of $275 million of excess expendable funds pool payout in the Tier I Buffer, as well as continued strong growth in real estate income. Unrestricted income from Stanford lands is projected to be $102.9 million in 2017/18, providing nearly 40% of unrestricted endowment income.

Other Investment Income—Other investment income is expected to increase sharply from $172.2 million in 2016/17 to $275.8 million in 2017/18, a 60.1% jump. 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 first of these sources, payout from the EFP, can experience extreme volatility but has a buffering policy in place, as described below.

The EFP is a collection of thousands of individual funds and is projected to have a 2017/18 year-end balance of $4.2 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. In the current year, the zero-return funds, which comprise 82.8% of the EFP, will receive a payout rate of 2.5%, which was the total investment return on the EFP in the previous year, 2015/16. EFP returns are expected to be well above 5.5% in the current year, so the EFP payout on the zero-return funds are budgeted at the full 5.5% allowed by policy. Both the expected increase in the EFP balance and the increase in the investment return contribute to the significant increase in payout in 2017/18. 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 2017/18, yielding $3.6 million. The EIFP is expected to earn $1.8 million and to have a fund balance of $355.0 million at the end of 2017/18.

The $3.5 billion of ending fund balances in the Consolidated Budget for Operations shown on page 4 includes all of the EIFP but only $3.2 billion of the total $4.2 billion invested in the EFP. This consists 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 $770 million in plant and debt pool funds and $230 million in student loan, pending, and agency funds.

The non-EFP portion of other investment income comprises $46.6 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; $19.3 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 be $98 million in 2017/18.

Special Program Fees and Other Income

Special program fees and other income revenue is budgeted at $516.2 million in 2017/18, an increase of 1.5% over the expected level in 2016/17. 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 2017/18 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. This 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 2017/18 is budgeted to be $3,621.5 million, a 7.8% increase over the 2016/17 year-end projection of $3,359.2 million. The approved merit programs for faculty and staff, targeted market-based increases, and anticipated headcount growth drive this increase.

Salaries—Total salary expense for faculty and staff, including SLAC, is expected to grow by 7.7% in 2017/18 to $2,380.6 million. Overall, projected salary expense in 2017/18 is the result of the approved salary program, incremental funding to increase the competitiveness of faculty salaries for selected disciplines and departments, and total combined headcount growth of 3.6% for faculty and staff. The headcount growth assumption is based on observations of the 2016/17 actual headcount trend and analysis of historical average growth. Within this aggregate, the university anticipates faculty growth to be 1.8% in 2017/18. In recent years, the number of academic staff has grown significantly across the university in support of expanding academic programs in the schools and independent labs and growth in clinical activities. In particular, the School of Medicine expects to hire 70 additional clinician educators in 2017/18, a significant driver in the overall increase in academic staff, which is expected to increase by 6.0%. The headcount for non-academic staff is projected to rise 3.5%, 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 continues to enjoy 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 2016. The salary program for 2017/18 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 in university housing. In 2017/18 the minimum salary will be increased by 4.25%.

Fringe Benefits—Fringe benefits expense is projected to increase 7.1% in 2017/18 to $733.6 million, growing at a slightly slower pace than salaries due to a drop in the main fringe benefits rate.

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 benefits 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 for a second year in a row from 1.75% to 1.60% in 2017/18, and this cost comprises roughly $29.5 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 2017/18 is expected to decrease 0.3 rate points over the negotiated rate for 2016/17. The fringe benefits rates for postdoctoral research affiliates and for casual/temporary employees are expected to increase in 2017/18, while the rate for graduate research and teaching assistants is projected to decrease somewhat.

FRINGE BENEFITS RATES

	NEGOTIATED 2016/17	PROPOSED 2017/18
Regular Benefits-Eligible Employees	30.7%	30.4%
Postdoctoral Research Affiliates	22.6%	23.5%
Casual/Temporary Employees	8.4%	8.5%
Graduate RAs and TAs	5.4%	5.0%
Average Blended Rate	**28.3%**	**28.1%**

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

- The major factor driving the regular benefits-eligible rate down is the projected cost for retirement medical insurance. The cost of this program is projected to decrease from the budgeted 2016/17 amount of $19.0 million to only $10.1 million in 2017/18, causing the rate to drop by 0.5 rate points. The retirement health plan benefit was changed in 2006. The old program provided to retirees the same health benefits as active employees. Under the new program, the university's contribution to a retiree's health plan is a fixed dollar amount, based on years of service at the time of retirement, and the contribution increases at the pace of the university's compensation program rather than medical inflation. Many employees were grandfathered into the old plan, but each year a higher proportion of new retirees fall under the new program. The significant decrease in the program costs in 2017/18 results from fewer retirees choosing to enroll in a health plan immediately upon retirement, as well as a greater number electing to waive coverage.

- Employee health plans comprise 32.2% of the fringe pool for regular benefits-eligible employees and are expected to add 0.2 rate points in 2017/18. The cost to the university for these plans is projected to be $210.6 million, an increase of 11.6% over the budgeted cost for the plans in 2016/17. The increase is driven by a combination of enrollment growth and medical cost inflation. The average cost of the health plans per employee is projected to increase by 7.0%.
- Starting in 2017/18, transportation benefits will be included in the fringe pool. The program costs include Caltrain Go Pass, VTA Eco Pass, and other transportation benefits to regular benefits-eligible employees and salaried postdoctoral scholars. Inclusion of the $3.4 million transportation program in the fringe pool adds 0.15 rate points to the RBE rate.
- A cash contribution to the closed Stanford Retirement Annuity Plan will increase the rate by 0.2 rate points, but will reduce the Pension Benefit Guaranty Corporation variable premium.
- The under-recovery of fringe costs in previous years will be slightly lower in 2017/18, resulting in a further 0.1 rate point decrease.

The 2017/18 postdoctoral research affiliates fringe rate will increase 0.9 rate points from the 2016/17 negotiated rate, mainly due to the inclusion of the transportation program in the benefits pool, medical inflation, and the impact of the carry forward from prior years.

The fringe rate for casual/temporary employees is projected to increase by only 0.1 rate point. The rate for graduate research and teaching assistants (RAs and TAs) is expected to decrease by 0.4 rate points due to the Cardinal Care health insurance premium remaining flat and to the impact of the carry forward from prior years.

Financial Aid

Stanford expects to spend a total of $298.2 million on student financial aid for undergraduate and graduate students in 2017/18, $42.9 million of which will come from general funds. Designated and restricted funds ($238.0 million) and grants and contracts ($17.4 million) will support the remainder. Total budgeted financial aid is 4.3% greater the projected total for 2016/17, as discussed below.

Undergraduate Aid—In 2017/18 Stanford students will receive $154.4 million in undergraduate need-based scholarships, of which $148.9 million will be from Stanford resources. In addition to Stanford resources, $5.5 million will come from federal grants, mostly Pell and Supplemental Educational Opportunity Grant (SEOG) grants, an amount comparable to 2016/17 but slightly less than historical levels. Cal Grants, which are not reflected in the Consolidated Budget for Operations as they are awarded directly to the students, will provide $3.0 million, a slight decrease from the current year.

Due to a major policy change for financial aid at the federal level, undergraduate need-based financial aid expense will increase 4.4% over the projection for 2016/17, a rate that is almost one point higher than the growth in the student budget. Applications for financial aid for 2017/18 will focus on data from the 2015 tax year, the so-called prior-prior year, to calculate an expected family contribution. This change greatly simplifies the application process, as students no longer have to estimate and then later correct income from the most recent tax year. It also allows the application process to begin earlier in better alignment with Stanford's early admission program. It is expected that overall parent contributions will be lower, which is reflected in the growth in the financial aid budget.

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.

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 2017/18 will be reduced slightly due to minor differences between the size and composition of the current senior class and the expected incoming student body in 2017/18.

It is interesting to note the relative share of university funding sources supporting this critical program. Five years ago, president's funds support was 20%, and endowment income support at $75.0 million provided 59%. Since then, generous donor support has allowed endowment income support to steadily increase to 71% of Stanford resources supporting need-based aid. Incremental gifts to endowment for need-based aid result in annual endowment payout that outpaces standard incremental costs of the program. Absent major changes in the program, the increases in endowment payout allow for slower increases in support from general funds.

The table below 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 $26.0 million in 2017/18, 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 $431.9 million in 2017/18. As the table on the facing page indicates, this includes the tuition component of fellowships in the amount of $117.4 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 projected increase in the number of graduate students. The table also shows the budgets, not represented in the Financial Aid line of the budget, for stipends, tuition allowance, and RA and TA salaries of $314.9 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 4. The minimum rate for TA and RA salaries and stipends will increase by 4.25% in 2017/18; tuition allowance expense is expected to increase by 6.5%, 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

UNDERGRADUATE NEED-BASED SCHOLARSHIP AID

[IN MILLIONS OF DOLLARS]

SOURCE OF AID	2012/13 ACTUAL	2013/14 ACTUAL	2014/15 ACTUAL	2015/16 ACTUAL	2016/17 PROJECTED	2017/18 PLAN
Department Funds and Expendable Gifts	3.0	3.2	3.6	4.2	3.9	3.6
Endowment Income	75.0	81.4	86.9	95.2	100.3	105.1
President's Funds - The Tier II Buffer	9.3					
President's Funds - The Stanford Fund	16.6	18.3	18.5	18.5	17.7	17.6
General Funds	23.6	23.6	21.9	17.4	20.7	22.7
Subtotal Stanford Funded Scholarship Aid	**127.4**	**126.5**	**130.9**	**135.2**	**142.6**	**148.9**
Federal Grants	5.6	5.5	5.8	5.8	5.5	5.5
Total Undergraduate Scholarship Aid	**133.0**	**132.0**	**136.6**	**141.0**	**148.1**	**154.4**
General Funds as a Share of Stanford Funding	18%	19%	17%	13%	15%	15%
President's Funds as a Share of Stanford Funding	20%	14%	14%	14%	12%	12%
Endowment funds as a Share of Stanford Funding	59%	64%	66%	70%	70%	71%
Number of Students	3,417	3,278	3,254	3,196	3,195	3,185

2017/18 FINANCIAL AID AND OTHER GRADUATE STUDENT SUPPORT FROM STANFORD RESOURCES

[IN MILLIONS OF DOLLARS]

PROJECTED 2016/17 YEAR-END		GENERAL FUNDS	DESIGNATED AND RESTRICTED	GRANTS & CONTRACTS	TOTAL
	Student Financial Aid				
148.6	Undergraduate	22.7	126.2	6.0	154.9[1]
25.1	UG Athletic		26.0		26.0
112.3	Graduate	20.2	85.8	11.4	117.4
286.0	**Total**	**42.9**	**237.9**	**17.4**	**298.2**
	Other Graduate Support				
84.3	Stipends & Health Insurance Surcharge	19.8	44.7	24.0	88.5
84.6	Tuition Allowance	37.6	34.1	18.4	90.1
130.0	RA/TA S&B	28.6	60.5	46.7	135.9
298.9	**Total**	**86.0**	**139.3**	**89.2**	**314.5**
138.5	Postdoc Support	5.6	40.9	99.6	146.1
723.5	**Total Student Support**	**134.5**	**418.2**	**206.1**	**758.9**

[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.

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. More than sixty percent of these individuals work in the School of Medicine, and 68.2% 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 by general funds. Postdocs receive a salary or a stipend and health benefits in exchange for their work. The total expense for postdocs is expected to be $146.1 million in 2017/18, an increase of 5.5% over 2016/17.

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 provide bridge financing for the receipt of gifts for capital projects. Internal loans are advanced to projects and amortized over the useful life of 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 2017/18, no change from the rate of the past four years.

Internal debt service in the Consolidated Budget is projected to be $199.3 million in 2017/18, only $200,000 more than in 2016/17. 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 Sand Hill Hotel and the Sand Hill Road Office Complex.

The reason for an essentially flat internal debt service expense is two-fold. In 2016/17, $3.6 million of remaining debt was written off for existing two-story buildings in Escondido Village (EV) after they were demolished for the construction of the new EV Graduate Residences. This one-time write-off, which inflated the debt service amount in 2016/17, will no longer exist in the 2017/18 budget. Nonetheless, incremental debt service from additional housing projects will offset this decrease in 2017/18. The most significant increment is the $2.6 million for the Colonnade, an apartment complex acquired by the university in 2016/17 as part of the Housing Acquisition Initiative. $1.7 million of debt service is also anticipated for the University Terrace Faculty Homes project before the housing units are fully occupied in 2018/19.

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 30% of university consolidated expenses, will total $1,734.2 million in 2017/18, decreasing by 2.6% from the projected 2016/17 level. The decrease is entirely attributable to SLAC's construction program, whose costs are expensed rather than capitalized as the facilities are owned and depreciated by the federal government. After accelerated construction in 2016/17, the spending for one of SLAC's major capital projects—the upgrade of the Linac Coherent Light Source (LCLS-II)—is scheduled to slow down, lowering SLAC's non-salary expenditure to $297.7 million, a reduction of nearly 24%.

Exclusive of SLAC construction costs, the growth rate of other operating expenses will be 3.3%. A few expenditure components have seen increases ranging from 5% to 10% in recent years, due partially to the inflation in the local economy and partially to increasing business needs across the university. However, in light of the tepid growth of endowment payout in 2016/17 and 2017/18, many units have implemented cost control strategies to moderate the growth of non-salary expenditures. Several units have even strategically applied budget cuts to a portion of their non-salary budgets. This trend will continue into 2017/18. As a result, other operating expenses are expected to increase at a much slower pace than in prior years.

OTHER OPERATING EXPENSES

[IN MILLIONS OF DOLLARS]

MAJOR COMPONENTS	2016/17	2017/18	PERCENT CHANGE
SLAC Non-Salary	389.9	297.7	−23.7%
Materials and Supplies	271.5	281.0	3.5%
Professional Services	216.6	230.7	6.5%
Stipends and Other Aid	141.8	148.8	5.0%
General Services	141.0	144.5	2.5%
Repairs and Maintenance	107.6	113.0	5.0%
Capital Equipment and Library Materials	103.8	95.1	−8.4%
Telecommunications and Utilities	52.0	54.9	5.5%
Other	356.4	368.5	3.4%
Total	**1,780.7**	**1,734.2**	**−2.6%**

Following the SLAC non-salary expenditure, the largest component of other operating expenses is materials and supplies, totaling $281.0 million in 2017/18. Fifty percent of these expenses are for the purchase of materials and supplies in laboratories and research settings. After the sale of the Blood Center to Stanford Health Care, the expenditure level of lab materials leveled off in 2015/16. Nonetheless, normal growth of 3.5% is anticipated for both 2016/17 and 2017/18.

Expenses for professional services are the third largest component. Largely comprising legal, accounting, and consulting services, this expense category is projected to be $230.7 million in 2017/18, a 6.5% increase. Although fluctuating year over year, it has shown robust growth ranging from 6% to 9% a year, propelled by individual units' operational needs in a very decentralized business environment.

Also included in other operating expenses are stipends for graduate students and postdoctoral scholars and other non-tuition aid, rising to $148.8 million in 2017/18. Close to sixty percent of expenses in this category are for graduate student stipends. They will increase 5.0%, in anticipation of average stipend payment growth and graduate student enrollment growth. Expenses related to general and administrative services will increase modestly to $144.5 million. They represent a diverse range of external payments for non-professional services, including insurance, permits, royalties, marketing, and advertising services. This expense category experienced only 2.5% of growth as of the first six months of 2016/17, and that trend is expected to continue as many units have deliberately constrained their general non-salary budgets in the face of slower endowment payout growth in the near future.

Besides the SLAC non-salary expense, capital equipment and library materials is the only category expected to decline, reducing by 8.4% to $95.1 million. In 2016/17, the university purchased a set of advanced microscopic instruments for the fields of biology and biomedical sciences, which cost approximately $14 million.

The remaining types of expenses comprise external payments for repairs and maintenance of buildings, equipment, and vehicles ($113.0 million); payments for rental and leases ($77.1 million), which have grown 15% on a compounded annual basis due to the expansion of off-campus facilities and housing units; external payments for telecommunications and utilities commodities in university buildings ($54.9 million); and services purchased from Stanford Health Care and Stanford Children's Health ($48.5 million). Expenses related to repairs and maintenance and utilities will be addressed in more detail in the following sections. The remainder,

$242.9 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. The university completed the Stanford Energy System Innovations (SESI) project in 2015. The Stanford Solar Generation Station, a 68-megawatt peak solar plant, also came online at the end of 2016. This solar plant, along with 5 megawatts of rooftop solar systems being implemented on campus, provides 53% of Stanford's total electricity use. The remaining 47% of the power comes from the general California grid, which is currently at least 27% renewable and will grow to 50% renewable by 2030 per state law.

After two consecutive years of decreases, the utilities budget will stay essentially flat at $103.4 million in 2017/18. Prior year utility budgets included $30 million to write-off the utility assets associated with the old energy system, including $2 million in 2016/17, which is the final write-off. As the write-off costs scaled down, the utilities budgets have shown steady declines over the past two years. Offsetting this downward trend are increases in electricity prices and water consumption in 2017/18. In 2017/18, the purchase price of electricity is expected to increase 2% due, in large part, to the full-year implementation of more expensive renewable energy. Water consumption is also anticipated to rise as the drought eases and new facilities come online.

The delivery of utilities to the campus involves three significant components: 1) externally purchased utilities (36%), 2) debt amortization on capital expenditures (40%), and 3) operations and maintenance in support of utility delivery (24%). Land, Buildings and Real Estate (LBRE) provides the majority of campus utilities ($90.4 million in 2017/18) 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 $12.9 million of utilities from external providers, including the City of Palo Alto, Pacific Gas & Electric, Constellation Energy, and the hospitals. Some examples are $6.2 million paid by the School of Medicine for utilities at the Stanford Research Park and Medical Center buildings; $3.7 million paid by Residential & Dining Enterprises primarily to cover the utility needs at Munger, Escondido Village, and off-campus housing units; and $1.0 million by the Office of the President and Provost for utilities in the common areas and vacant housing units of Stanford West, Welch Road, and Colonnade properties.

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 $189.1 million in 2017/18, rising 4.0% from 2016/17.

The largest component in the O&M budget is the external payment for repairs and maintenance, which is a subset of other operating expenses discussed above. It will increase 5.0% to $113.0 million in 2017/18, due to a combination of inflationary cost rise and incremental O&M needs for new academic, administrative, and athletic facilities. They include the newly renovated Kingscote office space, the Bass Biology Building, the Athletic Academic Advising and Rowing Building, and additional outdoor lighting, pathways and water ways maintenance.

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

1) $39.1 million of internal O&M services performed by the service centers in LBRE, including most of the 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) $20.2 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 compensation expenses of the Consolidated Budget.

3) $10.5 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) $6.3 million of services charged by Stanford Health Care, mostly incurred by the School of Medicine (SoM).

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

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 2017/18, transfers result in a net reduction from operating results of $242.8 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 represents transfers of expendable funds to endowment principal, which create FFE, or withdrawals of FFE to support operations. In 2017/18 Stanford is projecting that a net $110.2 million will be transferred to FFE from current operating funds. This figure is informed by the units' individual budget plans but has been increased by the University Budget Office to reach a level comparable to the actual results in each of the past five years. Most often schools and departments identify excess funds to invest in FFE during the year-end process when their operating results are known and may not include these actions in their budget plans.
- **Transfers to Plant**—The transfers in this category are primarily for capital projects. Total transfers to plant of $162.0 million are planned for 2017/18. Roughly $124 million of this total are transfers made from central university funds and include just over $100 million from the Capital Facilities Fund (CFF) and the Facilities Reserve to support plant projects (see more on the CFF in Chapter 4), $10 million for faculty home purchases, and $15 million for Stanford Infrastructure Program projects funded from the hospitals. The School of Medicine plans to transfer $28 million to plant to support the Center for Academic Medicine 1, the Stanford Oak Garden Children's Center, and phases 2 and 3 of the renovation of the Li Ka Shing Center. Land, Buildings and Real Estate will transfer $7 million from the Planned Maintenance Program for capital renewal projects. 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 $29.4 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 2017/18 is projected to be $1,450.7 million, an increase of 10.2%, or $133.8 million over the expected level for 2016/17. Nearly 50% of this increase is due to a $64.0 million payout on zero-return funds in the EFP. In 2016/17, income from EFP to general funds was about half of the historical average, because the EFP investment return in the prior year was only 2.5%, significantly below the university 5.5% stipulated payout. In 2017/18, general funds will receive the full payout in anticipation of an investment return above 5.5% in 2016/17. EFP payout is discussed in detail in the earlier section on investment income. Supplementing the higher EFP payout to general funds are a $26.1 million increase in student income, largely reflecting increased tuition rates, and a $29.1 million increase in endowment income, propelled by payout growth in unrestricted endowments and strong rental income from Stanford endowed lands. Other small increases, totaling $14.6 million, come from growth in indirect cost recovery, health care income, and other external income.

2017/18 NON-FORMULA GENERAL FUNDS

Per negotiated formula arrangements, $200.5 million of general funds will flow to the School of Medicine, the Graduate School of Business, and other formula units. In addition, $146.3 million is set aside for the Capital Facilities Funds, the Academic Facilities Reserve, the Housing Reserve, and other smaller items. The remaining $1,103.9 million of general funds are allocated by the provost to non-formula units.

During the annual general funds budgeting process, each budget unit meets with the Budget Group, the provost's advisory body composed of senior faculty and administrators to, 1) review the programmatic goals and priorities of the organization; 2) report on 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.

The Budget Group took a cautious approach in allocating general funds this year, guided by three main areas of focus. First, the group stressed the need to strengthen faculty and staff compensation programs, in an effort to address regional affordability issues. Second, the group was mindful of slower growth in endowment payout in the recent fiscal years and its impact on schools whose budgets are heavily dependent on endowment income. Third, the provost intended to maintain a reasonable general funds surplus to have the capacity to 1) respond to important initiatives arising from the university long-range planning, a process spanning from spring 2017 to winter 2018; and 2) prepare for potential shortfalls in research funding given uncertainties with federal research support.

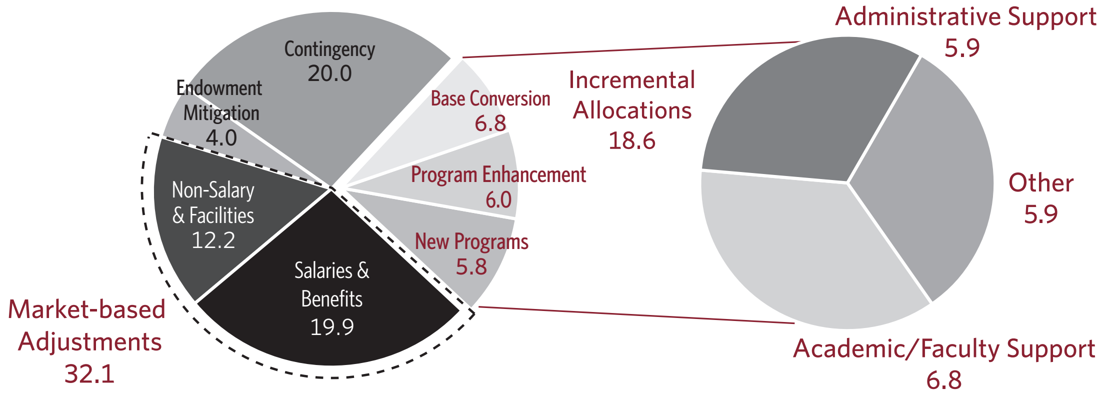
In light of those areas of concerns, $19.9 million was allocated to fund compensation programs and associated fringe benefits, including a very competitive salary program for both faculty and staff in 2017/18. $4 million of endowment mitigation funds were provided to selected schools to bridge the gap between endowment payout growth and expense growth. Lastly, $20 million of contingency funds were set aside against research uncertainties and outcomes from the long-range planning process.

In addition, $18.6 million of incremental general funds were allocated to units in support of specific programs. Within that, $6.8 million is distributed to existing programs presently on one-time general funds or reserve funds, and $6.0 million is for the enhancement of current programs. The remaining $6.8 million will fuel the start-up of new programs and fund new positions.

The incremental allocations are reflected in the pie chart on the following page. They are distributed among academic/faculty, administrative, and other programs in relatively even proportions: $6.9 million will support faculty and core academic programs; $5.9 million will bolster various

2017/18 BASE GENERAL FUNDS ADDITIONS: $74.7 MILLION

[IN MILLIONS OF DOLLARS]



administrative functional areas; and $5.9 million will be spent on a variety of other programs, including new facilities, student service programs, and those that improve business systems and campus security.

The goal to increase campus affordability again plays an instrumental role in making incremental allocations. Of these allocations, $2.0 million is aimed at resolving faculty salary equity and retention issues, and $777,000 of base support is allotted to the faculty childcare assistance program, including increasing the gross income thresholds for program eligibility and annual childcare award amounts. Among other faculty and academic programs, the Faculty Incentive Funds (FIF) and Faculty Development Initiative (FDI) received $1.8 million towards new billets; and the Environmental Health & Safety department received over $700,000 to permanently fund lab safety positions and communication programming as a strategic move to raise the research safety profile of the university (see detailed discussion on the facing page).

In the administrative areas, incremental general funds are geared towards relieving workloads in academic support areas, driven by expanded business needs and increasing operational complexity. For instance, $700,000 is appropriated to the Admission and Financial Aid Office to handle the growing number of application reviews and to manage the expanded alumni interview program. An equal amount of funds is provided to the Office of Development to maintain and add development and stewardship officers, given the rising number of gift prospects and school-specific fundraising needs.

Incremental allocations made to student areas also highlight the university's continuing efforts to enrich the student experience and financial support. Significant increments include $900,000 to fund additional tuition allowance for research assistants and close to $550,000 to convert the Community Engagement and Diversity unit including the Diversity and First-Gen Office within Student Affairs from one-time to base support.

Furthermore, approximately $1.7 million will support incremental O&M and utilities needs for new buildings and facilities, including, but not limited to, the Bass Biology Building and the newly-renovated Kingscote Garden. Additional resources, totaling $2.5 million, will help boost campus security and business applications. The latter includes the rollout of the ADAPT (Alumni and Development Application Transformation) system, the maintenance of an expanded university network, the management of the newly-implemented course evaluation platform, and the expansion of the Graduate Financial Planning application.

ENVIRONMENTAL HEALTH AND SAFETY

In a follow-up to the 2014 faculty-led task force on Advancing Safety Culture in the university laboratory, and with the encouragement of the University Budget Group, Environmental Health and Safety (EH&S) developed a multi-year strategic plan to address the findings and recommendations from the Task Force report. The overarching focus of EH&S's current efforts is on advancing and implementing an effective and responsive culture of safety across the University. The five key priorities are:

- **Research and Academic Support**—EH&S can help prevent mistakes and better anticipate risk in our campus community by coordinating and integrating more fully with research, teaching, and learning activities that are integral to Stanford's mission. Furthermore, by integrating safety (i.e., building it into the way researchers and faculty think and work), EH&S can reduce administrative burden and positively impact the next generation of thought leaders.
- **Institutional Emergency Management and Continuity Planning**—No unit or area of the university is isolated from the impact of an emergency, and the need to prepare and plan is universal. The focus is to build on existing efforts to ensure life safety by helping campus partners increase resiliency and limit disruption to critical functions through pre-planning, training, and exercises.
- **Injury Prevention and Loss Protection**—Preventing and reducing workplace injuries is essential to advancing employee wellness and campus-wide operational efficiency. Integration of safety programs with the delivery of medical services through the on-campus Occupational Health Center (OHC) is instrumental to the long-term strategy.
- **Business Processes and Data Management**—As a result of compliance needs, EH&S has made substantial investments in technology and data management. By focusing on the user experience, EH&S can significantly impact the utility of safety-related systems and services.
- **Outreach and Communications**—Effective communication and outreach programs are essential to the success of safety and health initiatives. A comprehensive broad-based communication strategy will facilitate behavioral and attitudinal changes within our campus community.

To achieve these strategic goals, EH&S has identified a combination of resources and guiding principles. EH&S will receive $700,000 of base general funds in 2017/18 and will invest it into initial efforts focusing on:

1) ensuring appropriate technical resources are available to support myriad and ever changing research programs, including newly emerging technologies, as well as providing the expertise necessary to address occupational safety challenges across the broader campus;
2) improving systems and processes to make it easier for all faculty, staff, and students to act and perform their work safely; and
3) enhancing training, outreach, and communities of practice that enable safety knowledge to be more efficiently disseminated.

Through on-going engagement, EH&S will advance a culture that integrates safety and health seamlessly with the work of laboratories and classrooms, bringing safety into the curriculum and the on-boarding processes of all new employees and researchers to be passed along to future generations when students, faculty, and staff go out into the world.

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. Stanford also presents a Statement of Activities, prepared in accordance with accounting principles generally recognized in the United States (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 GAAP basis Statement of Activities:

a) Eliminate Fund Transfers. The Consolidated Budget includes transfers of $276.3 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 includes the projected current year's purchases of capital equipment as expense. For GAAP purposes, the cost of capital equipment is recorded as an asset on the Statement of Financial Position. As a result, $95.1 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 $365.4 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

COMPARISON OF CONSOLIDATED BUDGET AND STATEMENT OF ACTIVITIES, 2017/18

Unrestricted Net Assets

[IN MILLIONS OF DOLLARS]

STATEMENT OF ACTIVITIES				FISCAL YEAR 2017/18		
2015/16 ACTUALS	2016/17 JUNE 2016 BUDGET	2016/17 PROJECTED YEAR-END		PROJECTED CONSOLIDATED BUDGET	ADJUSTMENTS	PROJECTED STATEMENT OF ACTIVITIES
			Revenues and Other Additions			
			Student Income:			
342.3	353.9	356.7	Undergraduate Programs	369.2		369.2
340.5	356.4	360.1	Graduate Programs	373.7		373.7
174.1	185.7	186.5	Room and Board	194.5		194.5
(269.6)	(286.1)	(286.0)	Student Financial Aid[e]		(298.2)	(298.2)
587.3	609.9	617.3	Total Student Income	937.4	(298.2)	639.2
			Sponsored Research Support:			
753.6	788.2	778.8	Direct Costs—University	806.8		806.8
251.4	262.3	266.8	Indirect Costs	278.0		278.0
1,005.0	1,050.5	1,045.6	Total University Research Support	1,084.8		1,084.8
447.8	590.6	644.2	SLAC	559.4		559.4
906.5	1,057.5	1,035.5	Health Care Services[f,k]	1,253.2	(93.9)	1,159.3
426.2	349.6	391.2	Gifts & Net Assets Released from Restrictions	391.2		391.2
			Investment Income:			
1,132.1	1,178.3	1,177.1	Endowment Income[j]	1,243.4	0.2	1,243.6
189.6	59.3	126.9	Other Investment Income[g]	275.8	(47.7)	228.0
1,321.7	1,237.6	1,304.0	Total Investment Income	1,519.2	(47.5)	1,471.6
523.5	538.8	513.8	Special Program Fees and Other Income[j]	516.2	5.4	521.6
5,218.1	**5,434.5**	**5,551.6**	**Total Revenues**	**6,261.4**	**(434.3)**	**5,827.2**
			Expenses			
3,091.7	3,365.2	3,361.7	Salaries and Benefits[d,g,j]	3,621.5	3.6	3,625.1
			Financial Aid[e]	298.2	(298.2)	
92.9	103.8	115.1	Debt Service[h]	199.3	(65.7)	133.6
			Capital Equipment Expense[b]	95.1	(95.1)	
346.0	350.6	355.2	Depreciation[c]		365.4	365.4
1,384.0	1,606.3	1,630.9	Other Operating Expenses[f,g,j,l]	1,639.1	(50.8)	1,588.3
4,914.6	**5,425.8**	**5,462.9**	**Total Expenses**	**5,853.3**	**(140.8)**	**5,712.5**
303.4	**8.6**	**88.7**	**Revenues less Expenses**	**408.1**	**(293.5)**	**114.7**
			Transfers			
			Additions to Endowment Principal[a]	(110.2)	110.2	
			Other Transfers to Assets[a]	(166.1)	166.1	
			Net Internal Revenue/Expense[i]	33.5	(33.5)	
0.0	**0.0**	**0.0**	**Total Transfers**	**(242.8)**	**242.8**	**0.0**
303.4	**8.6**	**88.7**	**Excess of Revenues Over Expenses After Transfers**	**165.4**	**(50.7)**	**114.7**

GAAP to be shown as expense in the period the employee earns the benefit. For 2017/18, GAAP expenses are expected to be higher than budgeted expenses by $30.9 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, $298.2 million of student financial aid expense is reclassified as a reduction of student revenues in the Statement of Activities, resulting in no change in results.

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 $52.8 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 $47.7 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 $30.1 million from compensation and $17.6 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. GAAP amounts also include interest payments for the Rosewood Hotel and Sand Hill Road Offices, which are not included in the Consolidated Budget for Operations. Therefore, Internal Debt Service expense must be reduced by the amount of internal principal amortization, increased for the Rosewood Hotel and Sand Hill Road Offices interest, and adjusted to account for the difference between internal and external interest payments. These combined adjustments reduce internal debt service expense by $65.7 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 $33.5 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 that the Alumni Association runs as a separate limited liability corporation. $5.6 million in revenues and $5.5 million in expenses is added ($2.8 million in Salaries and Benefits and $2.7 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 $41.1 million of revenue.

l) Include Stanford University Power LLC. To more effectively manage Stanford's Direct Access electricity procurement program, the university conducts all electricity procurement transactions through this LLC, which is not included in the Consolidated Budget. Including these electricity purchases in the Statement of Activities increases Other Operating Expenses by $17 million.

In summary, the impact of these adjustments decreases the Consolidated Budget's projected $165.4 million surplus by $50.7 million, resulting in a projected surplus of $114.7 million in the Statement of Activities.