EXECUTIVE SUMMARY

To The Board of Trustees:

The challenge of budgeting in tight times is apparent, but budgeting in relatively flush but uncertain times presents challenges as well. We are fortunate to be constructing the 2013/14 budget from a position of significant programmatic and financial strength. Our academic and research programs are world leaders in many fields and our overall financial position continues to be the envy of our peer institutions. Despite this strength, we have taken a cautious approach in planning for next year. Given uncertainties around federal research funding, in particular, we have made only limited and highly strategic general funds allocations in order to maintain surpluses in both the Consolidated Budget and its general funds component. In addition, two of our largest general funds allocations are largely defensive, in anticipation of continued constriction of the federal research budget: we have increased the percentage of tuition for graduate research assistants paid by Stanford (rather than charged to grants) and we have increased the university’s general funds reserve as a further hedge against possible research shortfalls.

This document presents Stanford’s 2013/14 Budget Plan for Trustee approval. The Budget Plan has two parts. The first is the Consolidated Budget for Operations, which includes all of Stanford’s anticipated operating revenue and expense for next year. The second is the Capital Budget, which is set in the context of a multi-year Capital Plan. The budgets for the Stanford Hospital and Clinics and the Lucile Packard Children’s Hospital, both separate corporations, are not included in this Budget Plan, although they are included in the university’s annual financial report.

Some highlights of the Budget Plan:

- The Consolidated Budget for Operations projects a surplus of $173 million on $4.8 billion of revenues, $4.5 billion in expenditures, and $140 million in transfers. We anticipate a revenue increase of 7.0% over the projected 2012/13 year-end results. This is principally due to a 12.4% growth in investment income partly offset by a low, 1.6% growth in sponsored research (exclusive of SLAC). SLAC revenue is expected to be up by 21%, due to several major construction projects at the facility, which by federal accounting rules must be fully expensed in the year of construction. We expect expenses to increase 6.2% due mainly to the impact of a 5.8% increase in total compensation and a 7.9% increase in other operating expenses, again driven largely by the SLAC construction. Exclusive of SLAC, revenues are projected to increase by 5.8% and expenses are projected to increase 4.8%.

- The Consolidated Budget includes $1.2 billion in general funds, of which $171.5 million flows to the Graduate School of Business, the School of Medicine, and the Continuing Studies and Summer Session Programs in accordance with previously agreed upon formulas. We anticipate a general funds surplus of $25.5 million, due to cautious allocations of incremental funding and careful management of expenses.

- This Budget Plan also presents the projected 2013/14 results in a format consistent with Generally Accepted Accounting Principles, as reported in the university’s annual financial report. The projected Statement of Activities shows an $85.9 million surplus.
The Capital Budget calls for $659 million in expenditures in 2013/14. These expenditures are in support of a Capital Plan whose projects, when fully completed, will require approximately $2.5 billion in total project expenditures. Principal expenditures in 2013/14 will be directed toward:

- Continued work on the Stanford Energy System Innovations (SESI) project
- Completion of Comstock Graduate Housing
- The repurposing of the GSB South building as the replacement for Meyer Library
- Initial work on the McMurtry Art and Art History building
- Completion of the Bioengineering/Chemical Engineering building

**STRATEGIC CONTEXT**

Following the significant reductions made in 2010/11, Stanford’s budget has experienced solid revenue growth. For 2013/14, however, we anticipate very slow growth in what has traditionally been our largest revenue source: federal sponsored research. (Because Department of Energy funding of SLAC’s capital projects distorts the picture, this year we have separated SLAC funding from other university sponsored research.) Since the federal budget outlook shows few signs of improvement, we must assume this trend will continue for several years.

We are also concerned about growth in staff, which is very hard to control centrally. In 2011/12, staff headcount grew by about 5%. We are a people-driven organization, and so most growth in revenue both requires and results in additional staff. Nevertheless, the physical and regulatory constraints under which we operate make it difficult to sustain such growth rates on the central campus. Consequently, as we increase the size and scope of our education and research programs, we must find ways to increase our campus productivity, as well as develop alternative work sites away from the core campus.

In light of these constraints, our budget decisions were guided by the following goals:

- to provide a competitive salary and benefits program for faculty and staff;
- to reduce the annual growth rate of staff to the longer-term historical growth rate of 2-3%;
- to reserve budget capacity to respond to shortfalls in government sponsored research and graduate student support;
- to support only the highest priority needs from the schools and administrative units, and use general funds only after local funding has been considered; and
- to maintain a surplus to protect against future budgetary uncertainties.

Some specific budget decisions follow:

**Salary Program**

Maintaining a highly competitive merit salary program for faculty and staff is essential to Stanford’s continued success. During the past several years, we have made extensive efforts to ensure that departments have competitive salaries within their respective markets. We believe we are currently in an excellent salary position in most units, and so for 2013/14, we plan a salary program that will simply maintain that position. That said, given recent increases in local housing prices, we are less sanguine about the ability of our housing programs to offset regional differences in housing costs, which is also crucial to faculty recruitment. We will continue to assess the effectiveness of these programs and stand ready to make modifications if needed.
Undergraduate Financial Aid

Stanford's highly competitive need-based financial aid program will continue in 2013/14. As always, financial aid expenditures increase to fully cover tuition, room and board increases for any students on financial aid. The Stanford resources directed to undergraduate need-based scholarships have increased from $75.2 million in 2007/08, before the recession and before substantial enhancements to the program, to $131.7 million budgeted for 2013/14. For 2013/14, we will allocate another $7.3 million in base general funds to support financial aid. These funds eliminate the need to continue supporting financial aid from the Tier II Buffer, which we have tapped since the downturn to cover the financial aid shortfall. Next year, general funds will cover $31.4 million, or 24%, of the need-based undergraduate financial aid program.

Academic Initiatives

We were able to fund the highest priority general funds requests in the schools and academic program areas. Notably, this included an $800,000 increase to the School of Engineering teaching assistant budget, to accommodate remarkable growth in Computer Science enrollments, and a comparable allocation to support instruction in the Creative Writing Program, another area of booming enrollments. We also increased general funds support for Earth Systems lecturers, the Stanford Technology Ventures Program, and the Student Model Shop.

Facilities

The cost of maintaining Stanford's facilities has a significant impact in the 2013/14 budget. We expect operations, maintenance, and utilities on new and existing facilities across the campus to increase by $12.1 million, from $206.8 to $218.9 million. Almost all of the increase, $11 million, is for utility costs (up 14.8%), which are driven by the debt amortization associated with completed portions of our new, more efficient energy facility. Total operations and maintenance expenses are budgeted to increase only 0.8%, an increase of $3.4 million for new facilities, offset by a reduction in off-campus lease expense.

Research Support

In this year of uncertainty around research funding, we have allocated a total of $14.7 million in incremental general funds to support research. This includes a $10 million increase in the university reserve as a buffer in the event that school and department reserves are unable to compensate for shortfalls in federal research and graduate student support. In addition, we have increased the central university contribution for RA tuition from 35% to 40%, at a cost of $2.3 million. We also allocated incremental funds for scientific equipment, staffing new shared nanoscience facilities, and research compliance costs.

FINANCIAL RESERVES

Stanford has four principal categories of financial reserves. The first consists of thousands of funds held across the university, largely controlled by individual faculty, departments, programs and deans. The remaining three reserves are controlled centrally.

Expendable reserves – We project Stanford's expendable reserves will stand at $3.4 billion at the end of 2013/14. Of that amount, $2.6 billion is a combination of restricted and unrestricted expendable funds or unspent restricted endowment payout. The remaining $800 million is split between plant funds ($600 million) and pending funds ($200 million).
University reserve – For many years we have maintained a $20 million general funds reserve. This reserve is replenished annually with base budget funds and then is used during the year to support various one-time expenditures. As noted above, beginning in 2013/14 we are increasing this reserve to $30 million.

Tier I Buffer – We project the Tier I Buffer will stand at $1.0 billion by the end of 2013/14. The buffer’s funds are generated by the investment returns on a subset of our expendable reserves. The money is invested as funds functioning as endowment, the payout from which supports the general funds component of the Consolidated Budget. The Tier I Buffer acts as a backstop to maintain the value of those expendable funds, which are invested in the merged pool.

Tier II Buffer – Our estimate of the Tier II Buffer is $860 million by the end of 2013/14, still substantially below its peak of $1.1 billion in 2006/07. Like the Tier I Buffer, this fund is generated from excess investment returns from expendable reserves, and is invested as funds functioning as endowment. The payout is used at the discretion of the president. (Further detail on the buffers may be found in Chapter 1 in the Other Investment Income section.)

CONSOLIDATED BUDGET FOR OPERATIONS

The table on the next page shows the main revenue and expense line items for 2013/14 and compares those numbers to our current projection of final results for 2012/13. Some highlights of both income and expense follow.

Revenue

Student Income – This figure is the sum of tuition and room and board income, and is expected to grow by 3.7%. Tuition income is projected to grow 3.8% over the projected 2012/13 actuals as the result of a 3.5% increase in the general undergraduate and graduate tuition rates and a slight growth in the number of students. Room and board income is projected to increase 3.2%.

University Sponsored Research – Sponsored research (excluding SLAC) is expected to increase by 1.6% over 2012/13 projected year-end results. Given federal budget issues, we expect government research to be flat in nominal terms next year, while non-federal research is anticipated to grow by 3.7%.

SLAC – Total research activity at SLAC will increase by 21% next year, driven by an increase of $73 million in anticipated construction costs. Facilities at SLAC are owned by the U.S. government and therefore are not capitalized on Stanford’s books. As a result, construction costs are shown as an operating expense for Stanford budget purposes. Non-construction activity at SLAC is expected to increase by just 1.7% in 2013/14.

Health Care Services Income – Revenue from health care services is projected to increase 5.2% in 2013/14. This revenue consists principally of payments from the hospitals to the Medical School for faculty physician services, which are expected to grow by 5.8%. This is offset by slower growth in the Blood Center, a unit run by the Department of Pathology.

Expendable Gifts – We are budgeting a 3% increase in expendable gifts, bringing that total to $185 million. Note that this figure does not include gifts to endowment or gifts for capital projects, which do not appear in the Consolidated Budget for Operations. In addition, net assets released from restrictions — payments made on prior year pledges and prior year gifts released for current use — are expected to increase by 5%.
### CONSOLIDATED BUDGET FOR OPERATIONS, 2013/14

**[IN MILLIONS OF DOLLARS]**

<table>
<thead>
<tr>
<th></th>
<th>2011/12 ACTUALS</th>
<th>2012/13 JUNE 2012</th>
<th>2012/13 PROJECTED ACTUALS</th>
<th>2013/14 CONSOLIDATED BUDGET</th>
<th>CHANGE FROM PROJECTED ACTUALS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student Income</td>
<td>721</td>
<td>745</td>
<td>751</td>
<td>779</td>
<td>3.7%</td>
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<tr>
<td>University Sponsored Research</td>
<td>866</td>
<td>894</td>
<td>885</td>
<td>899</td>
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<tr>
<td>SLAC</td>
<td>368</td>
<td>378</td>
<td>373</td>
<td>452</td>
<td>21.0%</td>
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<tr>
<td>Health Care Services</td>
<td>601</td>
<td>599</td>
<td>665</td>
<td>700</td>
<td>5.2%</td>
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<tr>
<td>Gifts In Support of Operations</td>
<td>178</td>
<td>200</td>
<td>180</td>
<td>185</td>
<td>3.0%</td>
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<td>Net Assets Released from Restrictions</td>
<td>110</td>
<td>110</td>
<td>100</td>
<td>105</td>
<td>5.0%</td>
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<td>Investment Income</td>
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<td>1,087</td>
<td>1,046</td>
<td>1,176</td>
<td>12.4%</td>
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<td>Special Program Fees and Other Income</td>
<td>437</td>
<td>430</td>
<td>464</td>
<td>483</td>
<td>4.2%</td>
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<tr>
<td><strong>Total Revenues</strong></td>
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<td>4,443</td>
<td>4,464</td>
<td>4,779</td>
<td>7.0%</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compensation</td>
<td>2,364</td>
<td>2,439</td>
<td>2,511</td>
<td>2,655</td>
<td>5.8%</td>
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<td>Financial Aid</td>
<td>241</td>
<td>250</td>
<td>246</td>
<td>254</td>
<td>3.3%</td>
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<tr>
<td>Debt Service</td>
<td>142</td>
<td>168</td>
<td>165</td>
<td>171</td>
<td>4.1%</td>
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<td>Other Operating Expense</td>
<td>1,205</td>
<td>1,239</td>
<td>1,283</td>
<td>1,384</td>
<td>7.9%</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>3,951</td>
<td>4,096</td>
<td>4,204</td>
<td>4,465</td>
<td>6.2%</td>
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<tr>
<td><strong>Operating Results</strong></td>
<td>351</td>
<td>347</td>
<td>260</td>
<td>313</td>
<td></td>
</tr>
<tr>
<td>Transfers</td>
<td>(250)</td>
<td>(128)</td>
<td>(236)</td>
<td>(140)</td>
<td></td>
</tr>
<tr>
<td><strong>Operating Results after Transfers</strong></td>
<td>101</td>
<td>220</td>
<td>24</td>
<td>173</td>
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<tr>
<td>Beginning Fund Balances</td>
<td>2,298</td>
<td>2,517</td>
<td>2,399</td>
<td>2,423</td>
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<tr>
<td>Ending Fund Balances</td>
<td>2,399</td>
<td>2,736</td>
<td>2,423</td>
<td>2,596</td>
<td></td>
</tr>
</tbody>
</table>

**Investment Income** - This category consists of income paid out to operations from the endowment ($982.3 million) and from other investment income ($193.6 million), the majority of which is payout from the expendable funds pool (EFP). Overall, investment income is expected to be up by 12.4% in 2013/14. Endowment payout is projected to increase by 6.6%, based on our Trustee-approved payout rate and our forecast of $475 million in new gifts and additions to endowment. Other investment income is expected to be up by 55%. This significant increase is governed by the approved EFP policy, which uses the prior year’s investment return to set most of the payout in the subsequent year. As a result of low returns in 2011/12, the payout for 2012/13 was well below budget. With current strong market performance, we project healthy returns this year. This will result in the large increase in payout for 2013/14 over the disappointing results for 2012/13.

**Expense**

**Salaries and Benefits** - We anticipate total compensation to increase 5.8% over 2012/13 year-end results. The increase is the result of our salary increase program and a modest growth in headcount. Fringe benefits expense is expected to increase by 5.7%. The cost of health insurance, on a per capita basis, is expected to increase by about 7%.
Financial Aid – The costs for need-based financial aid, athletic aid, and graduate student aid will increase by 3.3%. This increase allows Stanford to maintain its generous need-based aid program for undergraduates, consistent with our tuition increase. It also reflects our assumption of a slight improvement in the financial circumstances of some of our families on need-based aid.

Other Operating Expenses – This line item is the amalgam of graduate stipends, operations and maintenance, utilities, capital equipment, materials and supplies, travel, library materials, subcontracts and professional services. We are budgeting growth of 7.9% for these expenses. This large increase is driven by the $73 million increase in construction projects at SLAC. Excluding those projects, Other Operating Expense is anticipated to grow minimally at 2.3%.

School Initiatives
Stanford’s principal academic units, the seven schools, will continue advancing their research and teaching missions via ambitious agendas for 2013/14. A few highlights of their plans are:

Graduate School of Business – The school has three key strategic directions, focused on Global Strategy, the Stanford Institute for Innovation in Developing Economies (SEED), and an expansion of its distance learning capabilities. The GSB is also working with the School of Engineering to develop an exciting new series of joint degrees.

Earth Sciences – The school’s mission and ambition continue to expand with planning underway for a new research facility. In addition, the school is expanding its capacity to communicate the depth and breadth of its research discoveries and accomplishments.

Graduate School of Education – Having completed a year-long strategic planning process, the school will increase its attention on the implications of technological advances for learning, and on improving ways to deliver effective education to low income students.

Engineering – The school’s executive committee has identified four strategic directions that will help to drive programs and research in the coming years. These directions are: expansion of on-line learning, developing sustainable urban systems, the creation of an “innovation foundry” within the school, and establishing the capacity to use and develop tools for large data sets.

Humanities and Sciences – The school now boasts the strongest collection of arts and sciences programs in the country. To advance H&S even further, the school plans to develop a strong financial foundation for the arts, to help launch the initiatives in neuroscience and chemical biology, and to support changes in undergraduate teaching necessitated by the recommendations of the Study of Undergraduate Education at Stanford (SUES).

Law – Under first year Dean Elizabeth Magill, the Law School is assessing current challenges and identifying future needs. Emerging focal points include competitive faculty recruitment and compensation packages, curricular initiatives in global economic law and policy studies, and ensuring an adequate financial aid program to support a student population with diverse career interests.

Medicine – After experiencing annual growth averaging 6.2% over the past five years, Medicine expects that rate to slow to approximately 4% in 2013/14, due to projected flattening of federal research funding and a slower growth in clinical revenues from the hospitals. In spite of that, the school’s new dean, Lloyd Minor, has set out an ambitious agenda for enhancing the school’s three key priorities: advancing innovation, training leaders, and transforming patient care.
Executive Summary

GENERAL FUNDS BUDGET

A focal point of the budgeting process is the development of the general funds component of the Consolidated Budget. The $1.2 billion in general funds can be used for any university purpose and supports many of the core academic and support functions of the university.

The budget approved by the board for the current year, 2012/13, included a general funds surplus of $43 million and a forecasted surplus of $50 million for 2013/14. The 2013/14 forecast included funding for a competitive salary program and for the operations of new facilities expected to come on line that year. The general funds forecast for 2013/14 continued to improve further, allowing us to allocate additional funds for financial aid, taking this burden off one-time, presidential funds, and for research, as a largely defensive measure. In addition, we provided $11.3 million in incremental program support to the academic and administrative units. This was about half the amount allocated last year, reflecting our caution in the face of an uncertain financial outlook. Also, as noted above, an important priority in this year’s process was to slow the growth of staff at the university. We hope this limited funding will slow the growth at least of staff supported by general funds.

Some examples of incremental program support are:

- Academic Programs: operational funding for the new Chemical Biology Institute; on-going funding for creative writing lecturers; additional funding for the Library Materials Budget to maintain its purchasing power; curatorial support for the Archive of Recorded Sound and the Chinese library collections; lecturer support for introductory math and computer science courses.
- Administrative: increased funding for information security; expansion of prospect management and analytics in the Development Office; increased funding for Public Safety to expand security patrols and provide security for high profile events.
- Student Services: additional staffing in Counseling and Psychological Services; increased support to the Career Resources Center at the Graduate School of Education.

The pie chart above reflects all of the incremental allocations. After making the incremental program allocations described above we anticipate a general funds surplus of $25.5 million.
CAPITAL BUDGET AND PLAN

The Capital Budget and three-year Capital Plan are based on a projection of the major capital projects that the university intends to pursue to further its academic mission. The three-year Capital Plan spans 2013/14 through 2015/16; the Capital Budget represents anticipated capital expenditures in the first year of the plan. The three-year plan includes projects that were initiated prior to 2013/14, as well as projects that will commence within the rolling three-year period through 2015/16. The Capital Budget and Capital Plan are subject to change based on funding availability, budget affordability, and evolving university priorities.

The 2013/14 Capital Budget is projected at $658.7 million. The major projects within the Capital Budget include the completion of work on the Bioengineering/Chemical Engineering building, Comstock Graduate Housing, renovation of GSB South as the Meyer Library replacement, and the Anderson Collection building. It also includes continued work on the Stanford Energy System Innovations (SESI) and the McMurtry Art and Art History Building, and initial work on the Mayfield California Avenue faculty housing project. The projects listed here represent approximately 60% of the total capital budget for 2013/14.

The three-year Capital Plan includes $2.5 billion in construction and infrastructure projects and programs. Over half of the three-year Capital Plan consists of five significant projects: the SESI (underway) project; Bio-medical Innovation building 1; Bioengineering/Chemical Engineering (underway); Chemical Biology/Neurosciences building; and the Biology Research and Teaching facilities. The projects included in the plan can be readily accommodated within the constraints of the General Use Permit, given Santa Clara County’s approval of Stanford’s Sustainable Development Study in April 2009. When complete, the plan will add $54.9 million in annual debt service (over half for SESI, which will be funded out of utility rates) and $29.1 million in incremental operations and maintenance costs to the Consolidated Budget. All of these costs are included in our long-term budget forecasts.

ACKNOWLEDGEMENTS

The budget plan is the product of a great deal of work on the part of managers and budget officers at every level of the university. I would like to begin by acknowledging the budget officers and leadership in the schools and administrative units for their efforts in support of the budget process. I am particularly grateful to the leadership of the schools for making a concerted effort to fund new initiatives first out of restricted, school-controlled funds, and only secondarily asking for general funds supplementation when these funds fall short.

As always, I am extremely grateful to two hardworking advisory groups that assist me in formulating the general funds budget and capital plan. The University Budget Group consists of Margaret Brandeau, Adam Daniel, Harry Elam, Andrea Goldsmith, Patti Gumport, Neil Hamilton, Rosemary Knight, Randy Livingston, Maureen McNichols, Dana Shelley, Bob Simoni, Buzz Thompson and Tim Warner. This group met from early October through March, often twice a week, to review submissions and requests from the various budget units and to advise me on the final allocations of general funds. Staff support for the Budget Group, and for the creation of this document, is provided by the budget office staff, consisting of Neil Hamilton, Andrew Harker, Betsy Lewis, Serena Rao, and Dana Shelley, under the able leadership of Tim Warner.

The Capital Planning Group consists of Jack Cleary, Megan Davis, Alise Johnson, Stephanie Kalfayan, David Lenox, Bob Reidy, Craig Tanaka, Bob Tatum and Tim Warner. Craig guides the capital planning process with remarkable efficiency, while Megan tracks all financial aspects of the plan and supervises the final write-up in Chapter 4 of this document.
REQUESTED APPROVAL AND ORGANIZATION OF THIS DOCUMENT

The budget plan provides a university-level perspective on Stanford’s programmatic and financial plans for 2013/14. We seek approval of the planning directions, the principal assumptions, and the high-level supporting budgets contained herein. As the year unfolds, we will provide periodic variance reports on the progress of actual expenses against the budget. In addition, we will bring forward individual capital projects for approval under normal Board of Trustees guidelines.

This document contains four chapters and two appendices. Following the overview of budgeting at Stanford, Chapter 1 describes the financial elements of the plan, including details of the Consolidated Budget for Operations and the projected Statement of Activities for 2013/14. Chapter 2 addresses program directions in the academic areas of the university. Chapter 3 provides a similar view of the administrative and auxiliary units. Chapter 4 contains details on the Capital Budget for 2013/14 and the Capital Plan for 2013/14–2015/16. The appendices include budgets for the major academic units and supplementary financial information.

John W. Etchemendy
Provost
June 2013
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Budgeting at Stanford is a continuous process that takes place throughout the year and occurs at nearly every level within the university. The cycle starts with planning that considers programmatic needs and initiatives, continues with the establishment of cost drivers such as the approved salary program and fringe benefits rates, and is tempered by available funding sources. Stanford’s “budget” is an amalgamation of thousands of smaller budgets, including everything from an individual faculty member’s budget for a sponsored grant from the National Institutes of Health, to the budget for the Department of Psychology, to the budget for the School of Engineering, to the total of the Consolidated Budget for Operations. These budgets are created and managed by the areas that are governed by them, with oversight by the provost, the chief budget officer of the university. There are general principles and guidelines to which the budgets must adhere, but schools and other units are allowed tremendous freedom in the development and execution of their budgets.

Fund Accounting
Stanford’s budgets are developed and managed according to the principles of fund accounting. Revenue is segregated into a variety of fund types, and the use of the revenue is governed by the restrictions of the fund. For example, each expendable gift is put into an individual fund, and the recipient must use the funds in accordance with the wishes of the donor. Gifts of endowment are also put into separate funds, but the corpus itself is not usually spent. An annual payout on the endowment fund is spent, and as with gift funds, only in accordance with the restrictions imposed by the donor. The segregation of each gift allows the university to ensure that the funds are spent appropriately and to report to donors on the activities that their funds support. Monies received from government agencies, foundations, or other outside sponsors are also deposited in separate, individual funds to ensure strict adherence to the terms of the grants and/or contracts that govern the use of the funds. Non-gift and non-sponsored research revenue also reside in funds, but this type of revenue may be commingled in a single fund. Departments may choose to combine unrestricted monies into separate funds for a particular program, for a capital project, or to create a reserve. Stanford’s consolidated revenues by fund type are shown at the right.

Budget Management
So how does Stanford budget and manage its roughly 15,000 expendable funds (with balances) and 7,000 endowment funds? It goes without saying that the university uses a sophisticated financial accounting system to set up the individual funds, to record each financial transaction, and to track fund balances. But nearly all of the decision-making for the use of Stanford’s funds is made at the local level, consistent with the decentralized and entrepreneurial spirit of the university. Unlike a corporation, Stanford is
closer to a collection of disparate, autonomous businesses with widely varying cost structures and resources. As such, each principal investigator is accountable for the responsible use of his/her grant funding, each gift recipient must ensure that the gift funds are used in accordance with the donor’s wishes, and each school must fulfill the expectations for teaching and scholarship within its available resources. Schedule 21 in Appendix B shows expendable fund balances by academic unit and by level of control.

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

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

The Consolidated Budget for Operations, the aggregate of all of Stanford’s smaller budgets, is therefore not centrally managed in the corporate sense. Nonetheless, a great deal of planning goes into the development of the individual unit budgets that aggregate into the Consolidated Budget of the university.

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

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