STANFORD UNIVERSITY

BUDGET PLAN 2011/12
EXECUTIVE SUMMARY

To The Board of Trustees:

The past two years of budget reductions, combined with sharply improved investment results, have left Stanford in a more positive financial position than we could ever have expected in the difficult 2008/09 academic year. We have emerged from the recession well positioned to take advantage of selected academic and research opportunities, as well as to address important administrative and infrastructure needs. The Budget Plan for 2011/12 takes advantage of this position by making careful and strategic improvements in our programs, maintaining support for our students, investing in our faculty and staff, and enhancing our facilities. We have nonetheless remained cautious in our budget decisions, and so anticipate modest surpluses both on a consolidated basis and in most schools and administrative units.

This document presents Stanford’s 2011/12 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 $203 million on $4.1 billion of revenues, $3.8 billion in expenditures, and $104 million in transfers. Revenues are expected to increase by 2.6% over the projected 2010/11 year-end results. This is principally due to a 4.2% growth in student income and a 7.7% increase in investment income, partly offset by a 1.7% reduction in sponsored research. Expenses are up 3.2% due mainly to the impact of our salary program and a slight increase in other operating expenses.

- The Consolidated Budget includes $1 billion in general funds, of which $164 million flow to the Graduate School of Business, the School of Medicine, and the Continuing Studies and Summer Session Programs in accordance with previously agreed upon formulas. After transfers and other adjustments, there remains $861 million in general funds allocated directly by the provost. We anticipate a general funds surplus in the non-formula units of $39 million, due to continued tight expense management and cautious allocations of incremental funding.

- This Budget Plan also presents the projected 2011/12 results in a format consistent with Generally Accepted Accounting Principles, as reported in the university’s annual financial report. The projected Statement of Activities shows a $115 million surplus.

- The Capital Budget calls for $456 million in expenditures in 2011/12. These expenditures are in support of a three-year Capital Plan that, when fully completed, will require approximately $1.9 billion in total project expenditures. Principal expenditures in 2011/12 will be directed toward:
  - Completion of the Bing Concert Hall
  - Completion of the Jill and John Freidenrich Center for Translational Research
  - The Bioengineering/Chemical Engineering Building
Executive Summary

- The West Campus Recreation Center
- Preliminary work to prepare for the replacement of the university’s central energy facility

STRATEGIC CONTEXT

Over the past two years Stanford has moved quickly to adjust its budget in the face of the economic crisis. When the market value of the endowment dropped by almost 30% in 2008/09, we responded by reducing the endowment payout by 25% over the following two years. This required significant budget actions, including holding salaries flat in 2009/10 and implementing a 15% general funds reduction over the period 2009/10-2010/11.

The budget situation has now stabilized. As we look ahead to 2011/12 we will return to a more normal annual growth in endowment payout of about 4%. The reductions have helped to restore small surpluses in our projections and to position us well to make selected strategic investments.

Stanford’s financial situation has been helped in the past two years by increases in sponsored research, resulting largely from the American Recovery and Reinvestment Act (ARRA) and support from the California Institute for Regenerative Medicine (CIRM). Since ARRA funding concludes this year and the federal budget remains under severe pressure, we expect a drop in research funding for 2011/12. The projected drop is tempered, however, by the fact that in tight federal budget years, Stanford’s share of federal research tends to increase. In addition, our entrepreneurial faculty have historically been successful in finding alternatives to federal funding.

In developing the budget for 2011/12 we were guided by four key principles: 1) avoid adding back expenses that were cut over the prior two years, with the exception of faculty positions; 2) maintain our highly competitive salary and undergraduate financial aid programs; 3) make modest investments in our most compelling areas; and 4) maintain general funds surpluses to protect against future income shortfalls and to remain well positioned for future opportunities. These operating principles resulted in the following priorities:

Salary Program

As the economy begins to strengthen it is important that we provide a competitive salary program for faculty and staff. Consequently, we have developed a modest salary program that will allow us to maintain our market position and to address specific individual situations where we are below market or where there are significant equity or retention issues.

Undergraduate Financial Aid

Stanford remains committed to supporting one of the strongest undergraduate financial aid programs in the country. Stanford’s resources directed to undergraduate financial aid have increased from $96 million in 2007/08, before the economic crisis and before we made substantial improvements in our program, to $149 million budgeted for 2011/12. We have funded this growth through increases in restricted funds, support from presidential funds, and an additional $10 million in general funds. We also increased the target for financial aid in the Stanford Challenge from $200 million to $300 million and are making good progress toward realizing that goal. For 2011/12 we will add another $2.3 million in base general funds to support financial aid. These funds will be used to maintain the aid program in light of the tuition and room and board increases; to replace $1 million in president’s funds currently supporting the program; and to support a slight increase in the number of students on aid.
Graduate Aid
Support for graduate students continues to be one of the highest priorities for all of Stanford’s schools. We have added almost $1 million in general funds for graduate student support in the non-formula schools. This allocation, combined with the budgeted increase in endowment payout, will address these needs in the coming year. However, with the federal support for graduate students still under significant pressure, the long term funding issues for graduate students remain a source of concern.

Faculty Support
We have allocated general funds to build a faculty presence in the emerging field of geobiology in the School of Earth Sciences. This is an increasingly important new academic field in which Stanford is well positioned to excel. In addition, after freezing 50 faculty positions as part of the budget reduction effort, we have begun fundraising efforts to restore these positions with new endowment support. We expect to unfreeze several of these positions in Engineering in 2011/12 and in Humanities and Sciences during the 2012/13 fiscal year. Finally, the law and business schools will continue their ongoing efforts to expand their faculty.

Facilities
We have made great progress in recent years enhancing Stanford’s teaching and research facilities. While our plans were slowed slightly during the economic downturn, we have maintained an ambitious capital plan. Several exciting new buildings will come on line in 2011/12, and these will require general funds allocations to support utilities, operations and maintenance, and debt service.

Reserves
We project Stanford’s expendable reserves will stand at $2.4 billion at the end of 2011/12. Of that amount, $975 million is a combination of restricted expendable funds or unspent restricted endowment payout. These monies are spread widely across the university and are largely controlled by individual faculty members, departments, programs, or deans. The remaining $1.4 billion is held principally in designated funds, which are not legally restricted but are managed at the local school and department level in accord with various university policies. As a result of the management actions of the past two years, combined with strong returns in the endowment following the economic crisis, Stanford’s expendable reserves have climbed from $1.8 billion in 2008/09 to the projected level of $2.4 billion, a 33% increase.

CONSOLIDATED BUDGET FOR OPERATIONS
The table on the next page shows the main revenue and expense line items for 2011/12 and compares those numbers to our current projection of final results for 2010/11. 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 4.2%. Tuition income is projected to grow 3.7% over the projected 20010/11 actuals as the result of a 3.5% increase in the general undergraduate and graduate tuition rates, and increases between 3.5% and 5.8% in the professional schools. Room and board income is projected to increase 3.6%, mostly due to the 3.5% increase in the undergraduate room and board rate. In addition, $5.7 million in board revenue for the row houses, which was previously accounted for outside of the university’s books, will move into the consolidated budget.
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Sponsored Research – Total sponsored research (including SLAC) is expected to decrease by 1.7% over 2010/11 year-end results. After unanticipated, double-digit growth in the current year, due mainly to federal stimulus funding, we are expecting a 2% decrease in direct research, exclusive of the SLAC National Accelerator Laboratory. At SLAC we are budgeting no increase. Indirect cost recovery is expected to be down by 3.6% from the 2010/11 projected year-end results. These projections could change significantly as the federal budget picture becomes clearer.

Health Care Services Income – Revenue from health care services is projected to increase 1.7% in 2011/12. This is a lower rate of increase than in recent years. It is due principally to a one time extraordinary payment in 2010/11 resulting from an accounting change in the funds flow between the Children’s Hospital and the School of Medicine. Also contributing to the slow growth is the impact of increased consolidation in hospital system blood product purchases.

Expendable Gifts – The Office of Development anticipates that revenue from non-capital gifts available for current expenses will grow by 2.5% to $205 million. This figure brings us back above the pre-recession level of $200 million reached in 2008/09. It also builds upon a growth in the 2010/11 projected actuals of $200 million, significantly above the budget of $165 million. This does not include gifts to

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**CONSOLIDATED BUDGET FOR OPERATIONS, 2011/12**

[IN MILLIONS OF DOLLARS]

<table>
<thead>
<tr>
<th></th>
<th>2009/10 ACTUALS</th>
<th>2010/11 BUDGET JUNE 2010</th>
<th>2010/11 PROJECTED ACTUALS</th>
<th>2011/12 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>Total Student Income</td>
<td>658</td>
<td>680</td>
<td>694</td>
<td>722</td>
<td>4.2%</td>
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<tr>
<td>Direct Costs-University</td>
<td>603</td>
<td>607</td>
<td>663</td>
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<tr>
<td>Direct Costs-SLAC</td>
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<td>346</td>
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<td>Indirect Cost</td>
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<td>198</td>
<td>225</td>
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<td><strong>Total Sponsored Research Support</strong></td>
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<td>1,235</td>
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<td>Health Care Services</td>
<td>506</td>
<td>519</td>
<td>540</td>
<td>549</td>
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<tr>
<td>Gifts In Support of Operations</td>
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<td>165</td>
<td>200</td>
<td>205</td>
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<td>Net Assets Released from Restrictions</td>
<td>78</td>
<td>75</td>
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<td>80</td>
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<td>Investment Income</td>
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<td>905</td>
<td>916</td>
<td>987</td>
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<tr>
<td>Special Program Fees and Other Income</td>
<td>351</td>
<td>348</td>
<td>364</td>
<td>374</td>
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<tr>
<td><strong>Total Revenue</strong></td>
<td>3,791</td>
<td>3,842</td>
<td>4,028</td>
<td>4,131</td>
<td>2.6%</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Compensation</td>
<td>2,075</td>
<td>2,199</td>
<td>2,201</td>
<td>2,292</td>
<td>4.1%</td>
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<tr>
<td>Financial Aid</td>
<td>221</td>
<td>217</td>
<td>232</td>
<td>240</td>
<td>3.3%</td>
</tr>
<tr>
<td>Debt Service</td>
<td>144</td>
<td>171</td>
<td>158</td>
<td>165</td>
<td>4.2%</td>
</tr>
<tr>
<td>Other Operating Expense</td>
<td>1,057</td>
<td>1,063</td>
<td>1,116</td>
<td>1,128</td>
<td>1.1%</td>
</tr>
<tr>
<td><strong>Total Expense</strong></td>
<td>3,497</td>
<td>3,651</td>
<td>3,706</td>
<td>3,824</td>
<td>3.2%</td>
</tr>
<tr>
<td><strong>Operating Results</strong></td>
<td>294</td>
<td>192</td>
<td>322</td>
<td>307</td>
<td></td>
</tr>
<tr>
<td>Transfers</td>
<td>(131)</td>
<td>(107)</td>
<td>(181)</td>
<td>(104)</td>
<td></td>
</tr>
<tr>
<td><strong>Operating Results after Transfers</strong></td>
<td>164</td>
<td>84</td>
<td>141</td>
<td>203</td>
<td></td>
</tr>
<tr>
<td><strong>Beginning Fund Balances</strong></td>
<td>1,849</td>
<td>2,010</td>
<td>2,012</td>
<td>2,153</td>
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<tr>
<td><strong>Ending Fund Balances</strong></td>
<td>2,012</td>
<td>2,094</td>
<td>2,153</td>
<td>2,356</td>
<td></td>
</tr>
</tbody>
</table>
endowment or 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 remain flat at $80 million.

**Investment Income** - This category consists of income paid out to operations from the endowment ($838 million) and from other investment income ($148.5 million), the majority of which is payout from the Expendable Funds Pool (EFP). Overall, investment income is expected to be up by 7.7% in 2011/12. Endowment income will increase by 8.3%, due to improved investment returns, a return to our standard payout formula, which was suspended for the past two years in order to reduce payout more rapidly, and $350 million in new gifts and additions to endowment principal. Payout from the EFP is governed by university policy specifying that the payout will be 5.5% if the prior year’s return is greater than 5.5%, which we expect it to be.

**Expense**

**Salaries and Benefits** - We anticipate total compensation to increase 4.1% over 2011/12 year-end results. The increase is the result of our salary increase program and a small growth in headcount. Fringe benefits expense is expected to increase by 4.9%. This is due to an increase in the average blended fringe benefits rate from 28.0% to 28.7%.

**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 the 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 operations and maintenance costs, utilities, capital equipment, materials and supplies, travel, library materials, subcontracts, and professional services. We are budgeting a growth of 1.1% for these expenses, in line with anticipated inflation and internal cost control measures.

**School Initiatives**

Having completed the budget reductions, Stanford’s schools are advancing their research and teaching agendas and will continue to accelerate progress in 2011/12. A few highlights of their plans are:

**Graduate School of Business** - The coming year will be significant in the history of the business school. The school will operate its first full year in the Knight Management Center. It will also mark the first full year of the Program in Innovation and Entrepreneurship. To maintain the quality of its programs and support its new curriculum, the school has been on a path to increase its faculty from 100 to 110. Following an aggressive, three-year recruitment effort, the school hopes to have the full complement of 110 faculty on board in 2011/12.

**Earth Sciences** - As a result of recent planning discussions, Earth Sciences will begin the development of a Geobiology program in 2011/12, with the first of three faculty appointments. This is a breakthrough area in the Earth sciences, and Stanford has unique assets that will allow the school to build a leading program. The school will also be expanding its efforts to attract underrepresented minority students.

**Education** - In its 2011/12 budget, the School of Education will continue to enhance its network of faculty-led centers, most notably in the K-12 area. All the centers are committed to furthering research that can inform both policy and practice. As the faculty has grown in recent years, doctoral student numbers have remained constant. Consequently, the school plans to expand its incoming doctoral cohort from 30 to 35 students in 2011/12, as part of a longer-term effort to reach a steady state of 40.
Engineering – Interdisciplinary collaboration between Engineering and other schools continues to grow with the opening of the Jen-Hsun Huang Center and the Center for Nanoscale Science and Engineering. The focus has now turned to fundraising and planning for the final building in the Science and Engineering Quad, which will house the Bioengineering and Chemical Engineering departments. The school has also restructured and increased administrative support for sponsored research, adding significant resources to the Engineering Research Administration office, a move that will facilitate research in a tightening funding climate.

Humanities and Sciences – The school has emerged from the budget reductions in a position of financial equilibrium. The challenges for the coming year will be to maintain a faculty hiring rate equivalent to departures, to increase the number of graduate students in certain programs, and to develop a funding model for graduate students that will have long term viability.

Law – Raising funds for financial aid and for the Mills Legal Clinic are two principal priorities for the Law School in 2011/12. The school also continues to recruit actively in its faculty development program, which is focused on attracting five new lateral hires from peer law schools. One such individual was hired last year, and the school is optimistic about future hiring.

Medicine – After two years of strong growth in research funding from ARRA and CIRM, the Medical School is preparing for a period when federal research will likely not keep up with inflation. In addition, changes in healthcare funding will reduce clinical revenues to physicians and hospitals. In response the school will focus on integrated financial planning with the two hospitals. There will be renewed emphasis on raising funds for professorships, research support for junior faculty, and optimizing research space utilization.

GENERAL FUNDS BUDGET

A focal point of the budgeting process is the development of the general funds component of the Consolidated Budget. The $1 billion in general funds can be used for any university purpose and supports most of the core academic and administrative activities of the university. Of the $1 billion, $164.1 million flows to the formula units.

A year ago we forecast a general funds surplus for 2011/12 of $21 million. This forecast included a salary increase program and funding for new buildings planned to come on line during the year. During the year the outlook has improved for several reasons: the endowment has performed better than expected, utilities costs have been managed below budget, graduate student enrollment exceeded expectation, and debt service has been lower due to continued low interest rates. These improvements have allowed us to allocate an additional $1 million to the undergraduate financial aid budget and $16.3 million in incremental program support to both the academic and administrative units, while still leaving a planned surplus. Some examples of incremental program support follow:

- Academic Programs: Reinstate overseas seminar program in the Bing Overseas Studies Program; expanded digitization initiatives in the libraries; increased teaching assistant support in Economics; funding for undergraduate education minor; increased instruction budget for Stanford Language Center; and funding for shared scientific facilities.

- Administrative: Incremental support for the Engineering Research Administration office; increased administrative and compliance support for Stanford’s international programs; support for mobile device security program; Office of Development support for medical development, stewardship program, and additional school-based development support.
Faculty: Incremental geobiology positions in Earth Sciences; faculty equity and retention support in Humanities and Sciences.

Student Life: Enhanced residential education program; additional staffing in Vaden Health Center; base funding for Student Services Center; incremental funding for graduate Community Associates program.

The pie chart above reflects all of the incremental allocations.

As Stanford has emerged from the recession we have tried to budget a surplus in general funds to protect the university against potential future downturns and to provide the capacity to respond to future opportunities. After making the incremental program allocations described above, we still anticipate a $39 million surplus in 2011/12 and forecast similar surpluses in the next two years.

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 2011/12 to 2013/14; 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 2011/12, as well as projects that will commence within the rolling three-year period through 2013/14. The Capital Budget and Capital Plan are subject to change based on funding availability, budget affordability, and evolving university priorities.

In 2011/12, capital budget expenditures are expected to total $456 million. The major projects within the 2011/12 Capital Budget include the completion of the Bing Concert Hall; the completion of the Jill and John Freidenrich Center for Translational Research; substantial completion of the West Campus Recreation Center; and approximately half of the work on the bioengineering/chemical engineering facility. These structures represent approximately $170 million of the total capital budget for 2010/11. The capital
Executive Summary

The budget also includes the initial components of work on a major effort to re-develop and enhance Stanford’s central energy system. This project will span four years and cost $558 million; in next year’s capital budget we expect to spend $65.9 million.

The three-year Capital Plan includes $1.9 billion in construction and infrastructure projects and programs. This reflects a $362 million increase from last year’s plan. The three-year Capital Plan will be funded from $333 million in current funds, $452 million in gifts, $722 million in auxiliary and service center debt, $114 million in academic debt, and $256 million from other sources. The projects included in the plan can be readily accommodated within the constraints of the General Use Permit, given Santa Clara County’s approval of Stanford’s Sustainable Development Study in April 2009. When complete, the plan will add $58 million in annual debt service and $23.3 million in incremental operations and maintenance costs to the Consolidated Budget.

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 both the budget officers and leadership in the schools and administrative units for the transparent and realistic budget requests they brought forward to the University Budget Group. I am particularly grateful to the leadership of the units 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 fell short. As a result, the budget proposals this year were both modest and persuasive, and the Budget Group did its best to provide support for the most pressing priorities.

As always, I am incredibly grateful to the two hard-working advisory groups that assist me in formulating the general funds budget and capital plan. The University Budget Group consists of 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. Tim, Dana, and Neil keep the budget process on track, and deserve special recognition, as do the other members of the budget office, including Betsy Lewis, Creed Raftery, and Andrew Harker, for the parts they play in producing the budget, creating this document, and carrying out the final decisions.

The Capital Planning Group consists of Jack Cleary, Megan Davis, Stephanie Kalfayan, Bob Reidy, Suzanne Sangervasi, Craig Tanaka, Bob Tatum, and Tim Warner. Craig and Suzanne guide the capital planning process in a masterfully efficient way, Megan keeps track of all things financial and oversees the final write-up, and of course Bob and Jack see to it that the plan becomes reality.
REQUESTED APPROVAL AND ORGANIZATION OF THIS DOCUMENT

The Budget Plan provides a university-level perspective on Stanford’s programmatic and financial plans for 2011/12. 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 2011/12. Chapter 2 addresses program issues 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 2011/12 and the Capital Plan for 2011/12-2013/14. The appendices include budgets for the major academic units and supplementary financial information.

John W. Etchemendy
Provost
June 2011
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INTRODUCTION: BUDGETING AT STANFORD

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

Fund Accounting

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

Budget Management

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

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

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

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

Development of the Consolidated Budget & the Role of General Funds
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.