Approved:
This Budget Plan was approved by the Stanford University Board of Trustees June 12-13, 2019.

This publication can be found at:
https://budget.stanford.edu/budget-plans
STANFORD UNIVERSITY
BUDGET PLAN 2019/20
To The Board of Trustees:

I am pleased to submit the Stanford University 2019/20 Budget Plan for approval. This budget focuses first and foremost on maintaining Stanford’s many strengths. It also begins to build financial strategies that over time will support the major initiatives of the Long Range Planning (LRP) process.

A central component of the LRP process is addressing the affordability challenge in this region. It is—and will continue to be—a major priority of Stanford’s budget planning. We are budgeting for a solid salary program for faculty and staff. We are also continuing long-term efforts to enhance our housing programs with over half of the capital plan and capital budget earmarked for housing. Once the Affordability Task Force completes its work later in the year, we expect additional investments across a range of areas that will support our community.

The growth in the general funds portion of the university’s budget continues to be very modest, with limited capacity for incremental allocations. However, we were able to fund several key priorities. These include an expansion of financial aid for undergraduate and graduate students, enhanced support for student mental health, systems and network infrastructure, and improvements in our research platforms.

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 2019/20. The second is the Capital Budget, which is set in the context of a multi-year Capital Plan. The budgets for Stanford Health Care and Stanford Children’s Health, which are separate corporations, are not included in this Budget Plan, although they are incorporated into the university’s annual audited financial report.

**Highlights of the Budget Plan:**

- The Consolidated Budget for Operations projects a surplus of $126 million on $6.75 billion of revenues, $6.5 billion in expenditures, and $138 million in transfers. We anticipate revenue to increase 3.1% over the projected 2018/19 year-end results. This is the result, principally, of a 7.6% increase in health care services revenue and a 4.3% growth in student income, offset by a 6.1% reduction in SLAC sponsored research activity, which is driven by a reduced construction program compared to 2018/19. Overall, we are budgeting a 5.1% increase in expenses, driven largely by a 6.3% growth in compensation.

- Within the $6.75 billion in revenues in the Consolidated Budget are $1.6 billion in general funds, of which $209 million flows to the Graduate School of Business, the School of Medicine, and Continuing Studies in accordance with formula agreements. There will be $127 million set aside for the Capital Facilities Fund and other housing and facilities reserves. We anticipate a general funds surplus of $8.4 million, after reserving $11.5 million to support initiatives emerging from the LRP process in the coming years.

- This Budget Plan presents the projected 2019/20 results in a format consistent with generally accepted accounting principles (U.S. GAAP), as reported in the university’s annual financial report. The projected Statement of Activities shows a $2.8 million surplus. This SoA surplus is smaller than in
recent years mostly due to a smaller surplus in the Consolidated Budget itself, but also due to higher depreciation expenses as the Stanford Redwood City campus and other large capital projects are placed into service.

- The Capital Budget calls for $908 million in expenditures in 2019/20. These expenditures are in support of a Capital Plan whose projects, when fully completed, will total approximately $3.7 billion. Capital expenditures in 2019/20 will be directed toward the following large projects:
  - $369 million to complete the $1,161 million Escondido Village Graduate Residences.
  - $96 million to finish the $220 million Center for Academic Medicine facility.
  - $44 million for the BioMedical Innovations Building.
  - $38 million toward the Middle Plaza residential and office project on El Camino Real in Menlo Park.

**STRATEGIC CONTEXT**

The 2019/20 Budget Plan has been influenced by several factors:

- **Long Range Planning**—The LRP process has advanced significantly over the past year with design teams fully engaged in a number of areas to support our strategic objectives of: Advancing and Bridging Disciplines, Building Pathways for Impact, and Strengthening Communities on Campus and Beyond. Starting in June 2019, each programmatic activity will receive seed funding for a limited period of time. The level of funding will vary based on programmatic need. It is anticipated that many objectives will be funded through reallocation of existing resources for alignment with new operational or strategic priorities. In parallel, the Office of Development will work with teams on the scale of the initiatives, funding strategies and testing the waters with external advisors. By June 2020, the Executive Cabinet will confirm the initiatives: for external funding priority; for resourcing internally through reallocation of funds; and for school/unit consideration.

- **Affordability**—The high cost of living in this area, combined with significant commutes, has made affordability a central issue for Stanford. Consequently, the Affordability Task Force has been studying the situation and plans a report and recommendations later in the year.

- **Slow Growth in Endowment Payout**—For the past several years the growth in endowment payout to a typical fund has not kept up with the associated expense increases. This has put added pressure on many areas of the university to reallocate funds or find ways to reduce costs. We expect endowment payout growth to be just 2.1% for 2019/20, again below the anticipated cost increases.

- **Philanthropic Support**—Stanford is very fortunate to have had strong fundraising results over many years. We are optimistic that the friends of the university will continue their support in 2019/20 with gifts supporting operations, endowment, and capital facilities for projects that they believe most effectively advance the education and research mission of the university.

The following are our major priority areas for the 2019/20 budget:

- **Enhancing Access and Student Life**—A top priority in this year’s budget process included several initiatives aimed at expanding access for undergraduates and providing more support for them on campus. We improved our already strong undergraduate financial aid program by removing home equity in the calculation of financial aid eligibility. Financial assistance for graduate students was also increased, with an 8% rise in the minimum assistantship salary. We also expanded mental health services on campus for all students.
General Funds Surplus and Reserve for Future LRP Initiatives—It has been our general practice since the 2008 recession to carry a general funds surplus to protect the budget against potential revenue shortfalls. For 2019/20 we are carrying an $8 million general funds surplus. In addition, we have $11.5 million remaining from a $20 million base budget reserve created in 2017/18 for future LRP initiatives.

Supporting Research—Funds were allocated to the Dean of Research to enhance shared research platforms.

Diversity—Work on the IDEAL (Inclusion, Diversity, Equity, and Access in a Learning Community) initiative continues into 2019/20 with several budgetary implications; in particular, we allocated incremental funding for the Faculty Incentive Fund and the Faculty Development Initiative.

Housing—2019/20 will be the final year of construction on the Escondido Village Graduate Residences, a 2,434 bed complex slated to open in the fall of 2020. During the upcoming year Stanford will continue to subsidize $22 million of off-campus housing for graduate students. This effort began in 2013, and Stanford will have spent over $125 million during this period helping to provide affordable housing to our graduate students. In addition, construction will proceed on Middle Plaza-Residential, a mixed use development in Menlo Park that will provide 215 rental units to both faculty and staff. We will also continue the purchase of homes and apartments in the area under the Board-approved Off-Campus Housing Initiative.

FINANCIAL RESERVES

Stanford has three principal categories of financial reserves:

Expendable reserves—We project Stanford’s expendable reserves will stand at $4.7 billion at the end of 2018/19. Of that amount, $3.8 billion is a combination of restricted and unrestricted expendable funds, and unspent restricted endowment payout. The remaining amount is split among plant, student loan, and agency funds, which are not included in the Consolidated Budget for Operations. These reserves consist of thousands of funds held across the university, largely controlled by individual faculty, departments, programs, and schools.

Tier I Buffer—We project the Tier I Buffer will stand at $1.55 billion by the end of 2019/20. The Tier I Buffer comprises the university’s unrestricted funds functioning as endowment, the payout from which supports the general funds component of the Consolidated Budget. The majority of the buffer’s funds are generated by a portion of the investment returns on our expendable reserves. The Tier I Buffer acts as a backstop to maintain the face value of those expendable funds, which are invested in the merged pool.

Tier II Buffer—The Tier II Buffer is estimated to be $1.0 billion by the end of 2019/20. 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 from the Tier II buffer, however, is used at the discretion of the president. The corpus of the Tier II buffer acts as a general university reserve.

CONSOLIDATED BUDGET FOR OPERATIONS

The table on the next page shows the main revenue and expense line items for 2019/20 and compares those numbers to our current projection of final results for 2018/19. Some highlights of both income and expense follow.
### CONSOLIDATED BUDGET FOR OPERATIONS, 2019/20

#### [IN MILLIONS OF DOLLARS]

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<thead>
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<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
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<tr>
<td>Student Income</td>
<td>938</td>
<td>982</td>
<td>976</td>
<td>1,018</td>
<td>4.3%</td>
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<tr>
<td>University Sponsored Research</td>
<td>1,075</td>
<td>1,125</td>
<td>1,106</td>
<td>1,147</td>
<td>3.7%</td>
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<tr>
<td>SLAC Sponsored Research</td>
<td>580</td>
<td>510</td>
<td>520</td>
<td>488</td>
<td>−6.1%</td>
<td></td>
</tr>
<tr>
<td>Health Care Services</td>
<td>1,232</td>
<td>1,311</td>
<td>1,323</td>
<td>1,424</td>
<td>7.6%</td>
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<td>Gifts and Net Assets Released from Restrictions</td>
<td>460</td>
<td>425</td>
<td>445</td>
<td>445</td>
<td>0.0%</td>
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<td>Investment Income</td>
<td>1,521</td>
<td>1,612</td>
<td>1,631</td>
<td>1,658</td>
<td>1.6%</td>
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<td>Special Program Fees and Other Income</td>
<td>544</td>
<td>560</td>
<td>556</td>
<td>579</td>
<td>4.0%</td>
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<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>6,351</strong></td>
<td><strong>6,525</strong></td>
<td><strong>6,558</strong></td>
<td><strong>6,758</strong></td>
<td><strong>3.1%</strong></td>
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<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Compensation</td>
<td>3,571</td>
<td>3,854</td>
<td>3,818</td>
<td>4,057</td>
<td>6.3%</td>
<td></td>
</tr>
<tr>
<td>Financial Aid</td>
<td>303</td>
<td>321</td>
<td>321</td>
<td>341</td>
<td>6.1%</td>
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<tr>
<td>Debt Service</td>
<td>197</td>
<td>222</td>
<td>213</td>
<td>242</td>
<td>13.4%</td>
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<tr>
<td>Other Operating Expense</td>
<td>1,820</td>
<td>1,817</td>
<td>1,826</td>
<td>1,854</td>
<td>1.5%</td>
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<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>5,891</strong></td>
<td><strong>6,213</strong></td>
<td><strong>6,179</strong></td>
<td><strong>6,494</strong></td>
<td><strong>5.1%</strong></td>
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<tr>
<td><strong>Operating Results</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td></td>
<td>(267)</td>
<td>(141)</td>
<td>(213)</td>
<td>(138)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operating Results after Transfers</strong></td>
<td>193</td>
<td>171</td>
<td>166</td>
<td>126</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Beginning Fund Balances</strong></td>
<td>3,334</td>
<td>3,539</td>
<td>3,527</td>
<td>3,693</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Ending Fund Balances</strong></td>
<td>3,527</td>
<td>3,709</td>
<td>3,693</td>
<td>3,820</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### REVENUE

**Student Income**—This figure is the sum of tuition and room and board income, and is expected to grow by 4.3%. Tuition income is anticipated to grow 4.2% over the projected 2018/19 actuals as a result of increases in the undergraduate and graduate tuition rates and slight growth in the number of graduate students. Room and board income is projected to increase 4.5%, due to the 4.25% room and board rate increase and a 4.95% increase in graduate room rates.

**University Sponsored Research**—Sponsored research revenues (excluding SLAC) are expected to grow by 3.7%. Federal research will increase by 2.7%, while non-federal sponsored research will grow by 5.6%. This shift in sponsor mix has been an accelerating trend in recent years with the share of federal research support having dropped from 73% five years ago to just 68% in 2019/20.

**SLAC**—SLAC’s revenues are expected to decline by 6.1%, due to reduced construction activity compared to 2018/19. When SLAC is included, total sponsored research revenue is expected to be nearly flat compared to 2018/19 projected year-end results.

**Health Care Services**—Revenue from health care services is projected to increase by 7.6% in 2019/20. This revenue consists principally of payments from the hospitals to the School of Medicine for faculty physician services. Health care services revenue has been the fastest growing element of the Consolidated Budget over the past 15 years, with a compound annual growth rate of 11%. The 2019/20 growth has slowed a bit, though it still reflects robust clinical activity by Stanford faculty physicians.
Expendable Gifts—Stanford has enjoyed very strong fundraising results in recent years. Consistent with the estimate from the Office of Development, we expect expendable gift revenue to be flat in 2019/20.

Investment Income—This category consists of endowment payout ($1,362 million) and other investment income ($296 million), principally from the Expendable Funds Pool (EFP). Endowment payout is projected to increase by 4.0%. The payout growth to a typical endowment fund will be 2.1% for 2019/20, but overall payout growth is higher due to additions to endowment principal and real estate income. The Expendable Funds Pool payout will drop by 14.6% in 2019/20. By Trustee policy, EFP payout is based on the total return of the pool in the prior year, up to 5.5%. Because we expect lower returns in 2018/19 than in the prior year, the payout for 2019/20 will be reduced.

EXPENSE

Compensation—We anticipate total compensation to increase 6.3% over 2018/19 year-end results. The increase is the result of a strong merit-based salary program and a 3.4% overall increase in headcount.

Financial Aid—The amount of need-based financial aid, athletic aid, and graduate tuition aid will grow by 6.1%. This increase allows Stanford to maintain its generous need-based aid program for undergraduates, particularly for those families with incomes below $125,000. As noted above, it also reflects the elimination of home equity in the calculation of financial aid eligibility.

Other Operating Expenses—This substantial expense item is the amalgam of graduate stipends, operations and maintenance, utilities, capital equipment, materials and supplies, travel, library materials, subcontracts, and professional services. These expenses are projected to grow by 1.8% in 2019/20, driven largely by anticipated inflationary increases.

SCHOOL INITIATIVES

A few programmatic and financial highlights from Stanford’s seven schools for 2019/20 are:

Graduate School of Business (GSB)—The Business School will implement recommendations from committees examining the future of management education and the changing nature of faculty research. Specifically, there will be increased support for junior faculty and growth in hiring of predocs, postdocs, and research assistants.

Earth, Energy & Environmental Sciences (SE3)—Resources in the school are strained due to a bulge in junior faculty recruitment costs and slow growth in endowment payout. However, the school is taking a lead role in many elements of Stanford’s Long Range Planning process, including sustainability research and the initiatives in Data Science, Natural World, and Stanford Social X-Change.

Graduate School of Education (GSE)—The GSE is beginning the implementation phase of its own planning process that has been two years in the making. Work is advancing in the areas of learning differences and special education, as well as in early childhood education. These and other initiatives will be supported by current and new members of the faculty and will provide opportunity for expanded interdisciplinary work across other schools and departments at Stanford.

Engineering—The school is deeply involved in the university’s Long Range Planning effort with a number of faculty participating in Data Science, Human-Centered Artificial Intelligence, as well as other areas. The school is also focused on its undergraduate curriculum, with several departments revamping their major and with Aero-Astro creating a new undergraduate major.
Humanities and Sciences (H&S)—The school continues to build on its outstanding quality with new programs to support the teaching efforts of junior faculty. There will be a series of external departmental reviews starting in 2019/20 to identify opportunities for teaching innovation and improvement. While H&S is in strong financial health, slow growth in payout in recent years has created a funding gap that has been addressed with expense cuts, support from the provost, and the use of reserves.

Law—The Law School prides itself on continual innovation in its teaching and research. Next year the school will launch a full-time global quarter for 24 students, the only program of its kind in legal education. The school is also launching a new technology initiative that will expand research and teaching in areas involving the intersection of law and technology.

Medicine—With $2.7 billion in revenue the School of Medicine is Stanford’s largest and most complex school. With its partners, Stanford Health Care and Stanford Children’s Health, which together comprise Stanford Medicine, the school continues to expand its programs of education, research, and patient care. On the education side, in particular, a new MD curriculum was introduced this year and a new six-year MD/MS program will launch next year.

GENERAL FUNDS BUDGET

A central component of the annual budget process is the development of the general funds portion of the Consolidated Budget. The $1.27 billion in general funds in the non-formula units can be used for any university purpose. General funds play a critical role as they help to maintain many of the core academic and support functions of the university.

Our highest priorities for the use of general funds were to establish a competitive salary program for faculty and staff and maintain a modest surplus of $8 million. General fund allocations for non-salary expense were held flat for 2019/20. Additional priorities were:

Student Support ($12.8 million)—As noted earlier, we are strengthening the financial aid program for undergraduate and graduate students. We will also be expanding mental health services with additional staffing in Counseling and Psychological Services and the Office of Accessible Education.

Facilities Costs ($2.1 million)—As new buildings come online their operating costs are typically funded with general funds. We are budgeting for a partial year of operation for the Neuro/ChEM-H Research Complex, which will open later in the current fiscal year. In addition, funding is allocated for security services at the Anderson Collection.

Systems and Administration ($5.7 million)—Administrative costs are almost entirely funded with general funds, whereas academic and program costs often have some portion of support coming from restricted funds. The largest allocation in this area is for the alumni and development system (ADAPT), as well as a variety of smaller administrative systems. The newly organized Office of External Relations will receive supplemental funding, consistent with the long range planning priority of having Stanford engage more purposefully beyond the university.

Research and Faculty Support ($7.2 million)—This category includes funding for the Faculty Development Fund and the Faculty Incentive Fund, aimed at recruiting and retaining a diverse faculty. There is an additional allocation for enhancing shared research platforms.

Long Range Planning Reserve ($11.5 million)—Base funds are reserved to address LRP initiatives, particularly affordability, in future years.
CAPITAL BUDGET AND THREE-YEAR CAPITAL 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 Capital Budget, estimated at $907 million, represents anticipated capital expenditures in 2019/20, notably for the Escondido Village Graduate Residences, the BioMedical Innovations Building, and Middle Plaza at 500 El Camino Real in Menlo Park. The three-year Capital Plan spans 2019/20 through 2021/22, with total project costs of $3.7 billion. The three-year plan includes projects that were initiated prior to 2019/20, as well as the full cost of projects starting within the rolling three-year period through 2021/22. The Capital Budget and Capital Plan are subject to change based on funding availability, budget affordability, and evolving university priorities.

ACKNOWLEDGMENTS

Again this year, the Budget process was very challenging. We signaled early in the year that it would be a tight budget, and most units showed great restraint, only bringing forth extremely high priority requests. Nevertheless, requests far outpaced available funding, and very difficult decisions had to be made. We took the unusual step of not allocating any cost rise on the non-salary portion of base budgets for administrative units, in order to allow some reallocation of funds. Again, the LRP priorities were extremely helpful in guiding the difficult decision-making process that we went through.

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 thank the budget officers and leadership in the schools and administrative units for their efforts in support of the budget process.

There are two hardworking advisory groups that assist me in formulating the general funds budget and capital plan. The University Budget Group consists of Stacey Bent, Xing Chang, Sarah Church, Andrea Goldsmith, Judy Goldstein, Patti Gumport, Rosemary Knight, Randy Livingston, Steve Olson, Steve Sano, Dana Shelley, George Triantis, and Tim Warner. This group met from late September 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. Support for the Budget Group, and for the creation of this document, is provided by the University Budget Office staff, consisting of Kayte Bishop, Xing Chang, Jacy Crapps, Neil Hamilton, Kulneet Homidi, Dana O’Neill, Mike Ling, Davis Reek, Mark Rickey, and Dana Shelley, under the able leadership of Tim Warner.

I would like to acknowledge the long term dedication of Patti Gumport and Rosemary Knight, who have completed their final year on the budget group. They have both been incredible citizens of the university with their budget group service. We will miss their wise advice and broad perspectives on the university.

The Capital Planning Group consists of Jack Cleary, Lou Durlofsky, Megan Davis, Stephanie Kalfayan, David Lenox, Bob Reidy, Craig Tanaka, Bob Tatum and Tim Warner. Craig guides the capital planning process with remarkable efficiency, with excellent support from Howard Leung.
REQUESTED APPROVAL AND ORGANIZATION OF THIS DOCUMENT

The Budget Plan provides a university-level perspective on Stanford’s programmatic and financial plans for 2019/20. 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. We will also report on any budgetary implications of initiatives emerging from the LRP process. Finally, we will bring forward individual capital projects for approval under normal Board of Trustees guidelines.

This document begins with an overview of budgeting at Stanford, followed by four chapters and two appendices. Chapter 1 describes the financial elements of the plan, including details of the Consolidated Budget for Operations and the projected Statement of Activities for 2019/20. Chapter 2 addresses programmatic 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 2019/20 and the Capital Plan for 2019/20–2021/22. The appendices include budgets for the major academic units and supplementary financial and statistical information.

Persis D. Drell
Provost
June 2019
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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”—referred to as the Consolidated Budget for Operations—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. 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 monies without donor restrictions 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

At the end of fiscal year 2017/18, Stanford had roughly 23,000 active expendable funds (with balances) and more than 8,500 endowment funds. So how does Stanford budget and manage all these 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 entrepre-
neurial 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 19 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 AND 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.