

**THE  
STANFORD UNIVERSITY  
BUDGET PLAN**



**1996/97**

**Submitted for action to the  
Board of Trustees  
June 13–14, 1996**

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# EXECUTIVE SUMMARY

I am pleased to submit for your approval the 1996/97 Stanford University Budget Plan.

This is my third Budget Plan as Provost, and, like its predecessors, it is presented in two parts. The first is the Consolidated Budget for Operations, which reflects all of Stanford's anticipated non-capital revenues and expenditures. The second is the Capital Budget and Five Year Plan. The Capital Budget shows those capital projects anticipated to come forward for Board approval next year as well as the estimated total capital expenditures for the year. The capital projects are presented in the context of a Five Year Capital Plan, which provides our best forecast of capital activity through the year 2001. Together, these budgets reflect a university-level perspective on our programmatic plans and the supporting financial strategy for 1996/97. It is important to note that the budget for Stanford Health Services, a separate corporation, is not included in this Plan.

Budget discussions with the deans over the past three years have focused on two central goals: first, to preserve and enhance Stanford's academic preeminence; and second, to provide capacity for the innovation which is the lifeblood of a great university. This Plan, and those that have preceded it, are faithful to those goals. The academic plans and budgets for 1996/97 will advance Stanford in several important respects. In particular: we are expanding programs supporting undergraduate education; we have made major investments in new research and teaching facilities; and sufficient investments have been made in the faculty salary program to keep Stanford highly competitive.

In light of the University's recent financial history, one of my principal objectives has been to build budgets that provide a measure of stability in what are very uncertain times for higher education. Developing a strong financial base after several years of deficits and budget reductions gives us the opportunity to focus on our mission of teaching and research and to launch some new initiatives. I am pleased to report that we have been able to make good progress in this respect, as this Budget Plan provides for a \$12.7 million reserve in unrestricted funds. This reserve should give us an adequate buffer against unforeseen fluctuations in income and provide the stability that has been lacking in our budgets for some years. Although this surplus is welcome news, there is considerable uncertainty on the financial horizon of higher education. Consequently, we must be vigilant in keeping our costs under control and in finding new ways to be efficient and more productive.

In the remainder of this letter I would like to highlight some of the key elements of this Plan.

## **THE CONTEXT FOR BUDGETING**

Over the past three years Stanford has made significant changes in its budgeting practices in order to operate effectively in a cost conscious and uncertain environment. Several important reforms have now been fully implemented, the most significant of which are:

- **Budget Reductions** — Three years ago we set a target to cut the unrestricted budget by \$18 million. With this Budget Plan, we have trimmed, over that period, \$16.8 million from the budgets of academic and administrative units. Of the \$16.8 million, \$2.8 million was reallocated to a central university reserve. While this level of reduction falls slightly short of the goal, it is adequate to create an appropriate central

reserve. Over the past six years we have removed about \$53 million from Stanford's unrestricted budget base, a reduction of approximately 16%.

- **Consolidated Budget** — We have fully integrated the concept of consolidated budgeting into our planning efforts. Under a consolidated budget model, all sources of funds—both unrestricted and restricted—are brought into review.
- **Allocations of Unrestricted Funds** — Over the past several years we have eliminated the practice of allowing projected expense growth to drive the allocation of unrestricted funds. We are now allocating on the basis of projected revenue. This change has eliminated the concept of “cost rise,” under which every unit was guaranteed that its budget would increase at least by inflation.
- **Changes in Restricted Funds Policies** — The Trustees decided last year to implement an infrastructure charge on restricted funds expenditures and to no longer pay interest on most restricted funds balances.

These reforms have improved Stanford's budgetary situation considerably and have provided the measure of stability noted above. While these changes certainly represent progress, we cannot become complacent. It would be naive to expect the external financial constraints or the pressures brought on by a rapidly changing environment to abate. If anything, these pressures will increase. A projection of how our major sources of income are likely to grow over the next several years underscores this point quite clearly:

- Tuition growth is unlikely to continue at the rates of the past when it exceeded family income and inflation by 3-4 percentage points. Over the long term tuition cannot continue to grow significantly faster than family income.
- Endowment income has seen strong growth, but the cyclical nature of the financial markets makes us very cautious about expecting such strong returns in the future.
- Research support will be under pressure as the government looks for ways to cut budgets.
- Gift receipts reached a record figure in 1994/95. But we can only anticipate continued strong support from donors if we maintain budget discipline and manage our resources prudently.

While these income prospects may be somewhat less robust than in the past, Stanford's future is bright. Our programs are very strong, the most recent evidence of which came from the National Research Council's rankings of graduate programs. The budget reductions and efficiencies gained over the past several years have strengthened our financial position. And when the capital improvements and upgrades on the University's physical plant are completed over the next few years, our academic and research facilities will be second to none.

## **FINANCIAL OVERVIEW AND PLANNING ASSUMPTIONS**

**The Bottom Line:** The Budget Plan projects a surplus of \$21.4 million in the Consolidated Budget for Operations. This results principally from the unrestricted surplus of \$12.7 million, noted above, and an anticipated excess of restricted revenue over expense.

**Expenditure Reductions:** The Budget Plan for 1996/97 calls for \$3.2 million in cuts in the unrestricted Budget, split evenly between academic and administrative areas. These reductions will complete the program begun in 1993/94.

**Investments:** This Plan recommends investments of unrestricted funds to support several strategic initiatives. One area is supplemental funding for faculty salaries in those areas where we have slipped

against the market or face significant competition. Another area of investment is in the physical plant. An incremental \$2 million will be added to the existing \$6 million base as part of a longer term plan to build our planned maintenance budget. In addition, \$4.4 million will be added to the budget for maintenance costs and utilities on new buildings and for debt service on deferred maintenance and seismic strengthening projects.

**Supplemental Endowment Payout for Infrastructure:** The Plan includes a 0.5% supplement to the standard endowment payout rate of 4.75% to pay the costs of earthquake repair, seismic strengthening, deferred maintenance, and systems. To preserve the long term purchasing power of the endowment, the Trustees stipulated that cost increases in the unrestricted budget be held at 1% over inflation. This Plan operates within that constraint.

**Principal Assumptions:** The following are the principal assumptions used in the development of the Budget Plan:

Tuition Rate Increase	4.0%
Research Volume Growth (MTDC)	1.6%
Academic Salary Growth	3.0%
Staff Salary Growth	2.5%
Benefits Rate	29.7%

## ACADEMIC INITIATIVES AND PLANS

This Budget Plan reflects Stanford's programmatic plans and the financial requirements to support them. A central priority in any such plan is to maintain and improve upon the best of what we do now. This means funding a competitive faculty salary program, providing high quality facilities, and recruiting the best students. School level initiatives are described in the body of the document. The following are two important university-wide programmatic initiatives included in our plans for 1996/97:

- **Stanford Introductory Studies** — In May, President Casper announced a series of initiatives to bolster the first two years of the undergraduate curriculum, to be called the "Stanford Introductory Studies." These programs will include a new Freshman Seminar sequence, the recently approved Science Core, a series of programs for sophomores, and the Cultures, Ideas, and Values program. This ambitious new program will require additional faculty who will be supported by a generous new gift over five years. These billets will expand the teaching capacity of the faculty and provide the opportunity to make strategic appointments in a number of program areas.
- **Stanford Graduate Fellowships** — The President also announced the creation of a new program of Stanford Ph.D. Fellowships. In a period of tightened federal funding the purpose of this program will be to reduce our dependency on such funds, particularly in science and engineering, where most students are supported by sponsored research. There will be 100 such Fellowships, beginning in 1997/98. The program would expand to 200 Fellowships in 1998/99. The ultimate goal is to have 300 fellowships (100 three-year fellowships awarded each year). They will be funded initially by \$10 million from unrestricted gifts, with permanent support to be sought through fundraising.

## ADMINISTRATIVE AREAS AND AUXILIARY ENTERPRISES

Stanford is continuing its effort to deliver administrative services in a cost-effective manner even in the face of increasing costs for regulatory compliance. While these types of costs are not new to Stanford, they

continue to grow due to changes in financial reporting and accounting, building codes, materials handling requirements, and regulation of workplace behavior. In the Consolidated Budget for Operations we anticipate adding approximately \$900,000 to the unrestricted continuing budget base for these purposes. In the Capital Budget, the non-seismic regulatory compliance costs are anticipated to be about \$2.5 million.

On the other hand, we hope to tap new technologies to overhaul our management information systems in order to gain efficiencies. Over the past year we have already completed or are in the process of installing several new systems, notably the ID Card System, the Indirect Cost Allocation system, the Financial Aid system, the Budget System, and the Departmental Expenditure Management System. Completion of these projects by the end of the year will represent an important milestone in the achievement of the Administrative Information Systems (AIS) plan, approved by the Trustees in June, 1994. In 1996/97 we will address: the Core Financials, which includes the general ledger, capital asset management, and purchasing/payables; the Research Administration System; and the Development System. These systems represent a major investment that will have important payoffs in better management information, increased accountability, and administrative efficiencies.

### **1996/97 CAPITAL BUDGET AND FIVE YEAR CAPITAL PLAN**

The Capital Budget for 1996/97 has been developed in the context of a five year capital plan and reflects three major priorities: 1) support for the most promising academic programs; 2) seismic strengthening and recovery from the Loma Prieta earthquake; and 3) the reduction of the deferred maintenance backlog. The most significant projects in the capital plan are: the Science and Engineering Quad, Earthquake Repair and Seismic Risk Mitigation, Deferred Maintenance, and Student Housing.

The Capital Budget for 1996/97 calls for a second year of significant construction activity with approximately \$186.7 million anticipated to be spent on capital projects. (Approximately \$130 million of construction work will be completed in the current fiscal year, 1995/96.) We expect to bring about \$81.5 million of projects to the Board for concept approval, including the following buildings: Durand; Mitchell; Buildings 510, 160, 240 and 250; Housing and Dining Services Capital Improvement Plan Year Five projects; and Library Technical Services.

Although the Capital Plan forecasts activity over the next five years, it is important to view it in the context of the past three years. During that time major work has been underway in each of the program areas noted above. By the time work is completed on these projects at the end of the decade, the campus will have been significantly renovated.

### **ORGANIZATION OF THIS DOCUMENT AND REQUESTED APPROVAL**

This Budget Plan provides a university-level perspective on Stanford's program and financial plans for the upcoming year. We seek approval on the planning directions, the underlying assumptions, and the high level supporting budgets contained here. As the year proceeds, we will make periodic reports, as necessary, on the progress of actual expenditures against the budget. In addition, we will bring forward individually, for more detailed consideration, those capital projects identified for approval in this Plan.

This document is divided into six sections and three appendices. Section One describes a broad set of university-wide budgeting issues. Section Two details the financial components of the Plan, while Sections Three and Four address the programmatic issues in the academic, administrative, and auxiliary

areas of the University. Section Five contains the Capital Budget and Plan, and Section Six comments briefly on future planning issues. The appendices show the following information: the detailed budgets of the major academic units, the specific projects comprising the Five Year Capital Plan, and supplementary historical information.

## **IN CONCLUSION**

We have accomplished a good deal with the 1996/97 Budget Plan and with the three year planning cycle that has just ended. After several years of deficits and cost cutting, we now have some flexibility and the capacity to absorb unexpected shortfalls. We have a capital plan in place that will provide the highest quality physical environment for students and faculty. And we have made some strategic investments in new programs and support services that will maintain Stanford's leadership role. That said, it will be important to continue our efforts to find ways to reduce costs and to free up funds for strategic reallocation, because fiscal constraints are unlikely to ease.

Many people from across Stanford have contributed to our success over the past several years and have made important contributions to the development of this Budget Plan. I am most appreciative of their efforts and look forward to their sustained involvement as we work at the process of continually improving the University.

**Condoleezza Rice**  
**Provost**  
**June, 1996**



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