

SECTION 6

LOOKING AHEAD

Over the past several years Stanford has made good progress in improving its financial and budgetary condition. We have moved from an unrestricted deficit position of \$40 million in 1992/93 to a surplus of \$14.5 million planned for 1996/97. At the same time our endowment has grown from \$2.4 to \$3.4 billion in market value and our cost structure, particularly on the administrative side, has been reduced. While these achievements have not come easily, they are important because they provide a measure of stability and allow us to focus more comprehensively on academic priorities.

CHALLENGES

As we look ahead, however, we cannot allow our improved budgetary position to lull us into complacency. As Stanford begins a new planning cycle for the next three years and as we seek to build upon the exciting new initiatives of the Stanford Introductory Studies and increased support for graduate fellowships, there are several key budgetary challenges before us:

- We must continue our efforts to keep expense growth in check. In particular, we cannot allow unrestricted expense to increase faster than 1% in real terms. Keeping expense growth below this threshold will allow us to make the case to the Trustees for a supplemental 1/2% increase in the endowment payout rate.
- Although the last two years have seen strong growth in investment and gift income, we must recognize that those income sources will likely fluctuate in the future. Increased uncertainty implies greater variability, particularly in research funding, investment income, and gifts. We must also recognize that in some years our

income will not keep pace with inflation. This means that academic and administrative units may have to manage their salary programs and other expense issues without supplementary revenues.

- A more constrained future revenue picture means that continued attention be paid to less than fully effective academic programs. Those programs not highly rated or not performing strongly in teaching undergraduates need to be examined. In addition, we must look for redundancies in the academic programs and determine whether they are essential or could be consolidated.

GOALS

In light of these challenges, our goals are clear. First, we must work hard to maintain the \$14.5 million unrestricted reserve in order to protect the budget against income shortfalls. Perhaps the greatest concern on the income side is the potential for change in federal funding. With the removal of graduate student tuition remission from the staff benefits pool in 1997/98, there will likely be an impact on the Unrestricted Budget of several million dollars. In addition, as changes in the rules governing federal support for research are reviewed by OMB, attempts may be made to shift some of these costs from the federal government to universities.

A second important goal is the need to continue to keep a Stanford education affordable. This obviously means maintaining our strong financial aid program. But this also means making efforts to insure that future tuition increases do not exceed the growth of family income.

Third, Stanford must seek ways to make important strategic investments in programmatic initiatives. While we will likely be able to make some investments with incremental funds, we will have to expand into new areas through reallocation and through the additional use of restricted funds. The three year planning process we will launch in the fall will focus on these issues. While the planning for school-specific initiatives will need to wait until the fall, there are two university-wide initiatives underway now that will merit close attention. One is the implementation of new administrative computer systems, described in detail in Section Four. The other is the need to make major upgrades to the backbone SUNet network that links the many computers around the campus and provides our access to the Internet.

Finally, even though Stanford has made major reductions in its budget in recent years, we cannot accept the status quo with respect to our cost structure. While it will clearly be harder to achieve cost savings in the future, we need to move to greater reliance on process changes and to selective outsourcing.

In conclusion, there is a great deal about which to be optimistic. But in order to move Stanford in the most promising and productive ways, we cannot relax. Rather, we must continue to improve what we do across the University, manage our resources tightly, and protect ourselves adequately for the inevitable periodic downturns.