

**THE  
STANFORD UNIVERSITY  
BUDGET PLAN**



**1997/98**

**Submitted for action to the  
Board of Trustees  
June 12–13, 1997**

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# EXECUTIVE SUMMARY

I am pleased to submit for your approval the 1997/98 Stanford University Budget Plan.

This Budget Plan 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 in the context of our major program priorities and initiatives. The second is the Capital Budget and Five Year Capital Plan, which includes the capital expenditures planned for next year. These projects are presented as part of a multi-year plan which forecasts capital activity through the year 2002. Together, the Consolidated Budget for Operations and the Capital Budget reflect a university-level perspective on our programmatic plans and the supporting financial strategy for 1997/98. Budgets for Stanford Health Services and UCSF/Stanford Health Care are not included in this Plan.

## THE CONTEXT FOR BUDGETING

**Implementing Multi-year Initiatives:** Over the past several years, Stanford's budget planning has focused on several long term goals and initiatives, as well as on the specific challenges of preparing a single year's budget. At the most fundamental level, our central goals have been to build budgets that sustain Stanford's academic excellence while providing the capacity for innovation. On a more specific level, we are pursuing these goals with several university-wide multi-year strategic priorities—notably, the Stanford Introductory Studies Program, the Stanford Graduate Fellowships, the development of the Science and Engineering Quad, the seismic restoration program, and a number of technology-based initiatives.

**Challenges Specific to 1997/98:** In addition to the multi-year issues, we have been faced with other challenges specific to 1997/98. They include:

- **Tuition Remission** – Due to changes in the federal government's OMB Circular A-21, which regulates recovery of indirect costs on grants and contracts, Stanford will no longer be able to charge tuition remission for research assistants and teaching assistants through the staff benefits pool. The result is that these costs will be redistributed among various sources of funds and the share paid previously by the federal government will be reduced. The incremental cost to the University's general funds budget, estimated to be \$7.1 million, has been incorporated into this Budget Plan.
- **Salary Issues** – After several years of modest salary programs, we are facing increased pressure on salaries, particularly in light of the strong local economy. Our faculty salary levels are generally very competitive at the top of the national faculty marketplace. However, there are some areas of weakness scattered across the University. Staff salaries, which we target at the middle of the local market, are under some pressure, particularly for technical positions. We have responded to the overall salary issue by budgeting a 3.5% program for faculty and staff, with some special increments for jobs below market. While this program will not alter our overall market position, it should generally allow us to hold steady against the market and correct the most significant imbalances.

- **Sustaining a University Reserve Against Income Shortfalls** – One of our priorities over the past four years has been to build budgets that provide some measure of stability in what will continue to be uncertain times for higher education. As was the case last year, the 1997/98 Budget Plan establishes a base budget general funds University Reserve. The reserve for 1997/98 is \$11.6 million. I am pleased it can remain at this level in light of other pressures on the budget. This reserve should provide an adequate buffer against fluctuations in income and allow additional flexibility in developing budgets for future years.
- **Uncertainties in Sponsored Research Funding** – For the past several years, Stanford researchers have operated in a very uncertain federal research funding environment. We see no indication that funding for federal research in the future will be any more predictable than in the recent past. Although 1996/97 research volume has been stronger than budgeted, our view is that the long term trend in research funding will be flat in real terms.

**Addressing the Challenges:** We have been able to meet these budgetary challenges through a combination of strong management across the institution, buoyant financial markets, and the unparalleled support of our donors.

In particular:

- **Cost Control** – We have eliminated the practice of allowing projected expense growth to drive the allocation of general funds. Funds are now allocated to the deans and administrative units 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. As a result, we have been able to constrain expense growth, particularly in non-salary areas.
- **Endowment Growth** – The endowment has registered strong gains in recent years. We project endowment income in the 1997/98 Budget Plan to increase by 14.6% over the projected 1996/97 actuals. This increase is after the endowment payout smoothing rule is applied, a formula which dampens the effects of major swings in the market. (It also reflects a continuation of the 0.5% supplement to the endowment payout rate, described below.)

In summary, in developing the 1997/98 Budget Plan we have incorporated support for the central initiatives in teaching, research, and facilities support. We have also addressed several issues that are specific to next year. The result is a Budget Plan which allows Stanford to advance programmatically in the short run while ensuring a stable base from which to plan for the future.

## **FINANCIAL OVERVIEW AND PLANNING ASSUMPTIONS**

**The Bottom Line:** The Budget Plan projects revenues and transfers of \$1.43 billion and expense of \$1.40 billion in the Consolidated Budget for Operations. The resulting surplus of approximately 2% (\$30.0 million) results from the general funds surplus of \$11.6 million, noted above, and an anticipated excess of restricted revenue over expense.

**Incremental Investments in University-wide Programs:** This Budget Plan contains a number of programmatic investments, supported both by general funds and by restricted funds. One of the most significant is the Stanford Introductory Studies Program, a set of initiatives focusing on the first two undergraduate years. One-time and continuing expense for this program will increase by \$2.2 million in 1997/98. This program will be funded from a variety of sources supporting expansion of the various initiatives, particularly the Freshman Seminars, the Sophomore Programs, the General

Education Requirements, and the redesigned Area One requirement (currently fulfilled by courses in CIV). Another important initiative is the Stanford Graduate Fellowship Program, which will enroll its first class in the Fall.

**Supplemental Endowment Payout for Infrastructure:** The Plan includes a 0.5% supplement to the standard endowment target payout rate of 4.75% to pay the costs of earthquake repair, seismic strengthening, deferred maintenance, and information systems. To preserve the long term purchasing power of the endowment while incorporating this 0.5% supplement into the budget, the Trustees stipulated that increases in continuing costs supported by the general funds component of the Consolidated Budget be held at 1% over anticipated inflation. This Plan operates within that constraint.

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

Tuition Rate Increase	4.0%
Academic Salary Growth	3.5%
Staff Salary Growth	3.5%
Benefits Rates:	
Faculty/Staff/Other Teaching	26.1%
Post Doctoral Fellows	15.1%
Casual/Temporary	8.5%
Students	0.0%

## 1997/98 CAPITAL BUDGET AND FIVE YEAR CAPITAL PLAN

The 1997/98 Capital Budget and the updated Five Year Capital Plan continue the ambitious efforts in which Stanford has been engaged for the past four years to renovate the campus and provide new facilities for teaching and research. By the year 2000 we will have accomplished the major objectives set out in our first multi-year Capital Plan in 1993: to complete the seismic repair and strengthening resulting from the 1989 Loma Prieta earthquake; to address the major deferred maintenance needs; to improve and expand the student housing stock; and to add to our research facilities in the sciences and engineering. When these projects are completed, the physical renewal of Stanford's infrastructure will be complete.

Through the Capital Budget in 1997/98, we will be making \$285.0 million of investments in new and renovated facilities and in systems. The maintenance costs and utilities on those new buildings and the debt service on deferred maintenance and seismic strengthening will add \$3.6 million to the Consolidated Budget for Operations. We will also be supporting the physical plant with an incremental \$2.0 million in new funding added to the existing \$8.0 million base to build a planned maintenance budget. By the end of the decade we expect construction activity to return to annual expenditure levels of \$100-\$140 million.

## REQUESTED APPROVAL AND ORGANIZATION OF THIS DOCUMENT

This Budget Plan provides a university-level perspective on Stanford's program and financial plans for 1997/98. We seek approval of 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 budget. In addition, we will bring forward individually, for more detailed consideration, specific capital projects under normal Board guidelines.

This document is divided into four sections and three appendices. Section One describes the financial elements of the Budget Plan, including the budgets themselves and a projected Statement of Activities. Section Two addresses selected programmatic issues in the academic and support areas of the University. Section Three contains the Capital Budget and Plan, and Section Four provides brief commentary on future planning issues. The appendices contain the following information: the detailed budgets of the major academic units, the specific projects comprising the Capital Plan, and supplementary historical information.

## **CONCLUSION**

The process of developing the budget is, by definition, a collaborative one. I would like to thank the deans, my faculty colleagues, and the many staff members who have contributed to the development of this Budget Plan. Their efforts are most appreciated, and I look forward to their continued positive involvement as we implement this Plan in 1997/98.

**Condoleezza Rice**

**Provost**

**June, 1997**

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