STANFORD UNIVERSITY

BUDGET PLAN 2017/18

Approved:
This Budget Plan was approved by the Stanford University Board of Trustees June 14–15, 2017.

This publication can be found at:
http://www.stanford.edu/dept/pres-provost/budget/plans/plan18.html

STANFORD UNIVERSITY

BUDGET PLAN 2017/18

EXECUTIVE SUMMARY

To The Board of Trustees:

It is a pleasure to submit my first Budget Plan as Stanford's provost. This budget maintains our university's pre-eminent academic and research programs. It calls for selective investments in high priority areas. It also strengthens our financial base, thereby providing the foundation for the strategic initiatives expected to emerge from the Long Range Planning process.

Our approach in developing the 2017/18 Budget Plan has been a cautious one. Slow growth in endowment payout and uncertainty around government sponsored research have created a planning context in which we have reduced the growth of new program investment compared to recent years. At the same time, we have increased our financial reserve position should external funding conditions deteriorate. We are confident this budget both furthers Stanford's programmatic objectives and maintains a strong underlying financial condition.

This document presents Stanford's 2017/18 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 Stanford Health Care and Stanford Children's Health, both 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 $165 million on $6.3 billion of revenues, $5.9 billion in expenditures, and $243 million in transfers. We anticipate revenue to increase 5.0% over the projected 2016/17 year-end results. This results from an 11.6% increase in health care services revenue and a 12.6% growth in investment income, offset by a 13.2% reduction in SLAC sponsored research activity, which is driven by a smaller construction program compared to 2016/17. Overall, we are budgeting a 4.1% increase in expenses, resulting from a 7.8% growth in compensation coupled with a small reduction in other operating expenses.
- The Consolidated Budget includes $1.45 billion in general funds, of which $200 million flows to the Graduate School of Business, the School of Medicine, and Continuing Studies in accordance with previously agreed upon formulas. We anticipate a general funds surplus of $26 million, a figure higher than last year but comparable to most years following the recession. We have also budgeted a $20 million contingency against uncertainties in federal research, endowment payout shortfall, and initial costs of initiatives emerging from the Long Range Planning process. This surplus, coupled with the contingency, provides an appropriate cushion against revenue fluctuation and will allow us to address one-time needs throughout the year.
- This Budget Plan presents the projected 2017/18 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 $1.2 billion in expenditures in 2017/18. These expenditures are in support of a Capital Plan whose projects, when fully completed, will total approximately $4.3 billion. Principal expenditures in 2017/18 will be directed toward:

- $329 million for Stanford Redwood City Phase 1. This is part of a multi-year project to build an administrative campus in Redwood City at a total cost of $569 million. It is expected to open in 2018/19.
- $171 million toward the new Escondido Village Graduate Residences.
- $119 million towards the $257 million ChEM-H and Stanford Neurosciences Institute Research Complex.
- $104 million towards the Center for Academic Medicine 1 building.
- $104 million towards the BioMedical Innovations Building.

STRATEGIC CONTEXT

The context in which we have developed the 2017/18 Budget Plan has been shaped by several factors:

- **Slow Growth in Endowment Payout**—For the past two years endowment returns have underperformed our long term expectation. Consequently, even after incorporating our smoothing formula, growth in endowment payout has been below what is needed to maintain the purchasing power of our endowment funds.
- **Sponsored Research Uncertainty**—There is considerable uncertainty around government sponsored research. While Stanford has fared well during past periods of decline in research, we are concerned about the outlook and are working actively to advocate our position.
- **Housing Costs**—A robust local economy has helped tremendously to support the philanthropy from which Stanford has benefitted over the years. However, that strong economic growth continues to place severe pressure on the costs of housing and transportation. These are not new issues for Stanford, but they show no signs of slowing.
- **Strategic Planning**—The Long Range Planning process launched this spring will conclude in 2017/18 with a set of strategic directions for Stanford. This is an exciting time for the university as we look to create a shared vision for the future.
- **Growth of Stanford Medicine**—Stanford Medicine (the Medical School, Stanford Health Care, and Stanford Children's Health) will continue on its growth trajectory of recent years with off-campus clinical expansion and with the new adult hospital scheduled to open in late 2018. Clinical revenue flowing to the Medical School is the fastest growing income source in the budget, and it is now the second largest source of revenue for Stanford. Changes in governmental health care policy and the transformation of biomedicine to precision health continue to shape this rapidly evolving enterprise at Stanford.

These factors have helped define our major priority areas for the 2017/18 budget:

- **Strengthening and 'Shoring Up' the Base Budget**—In anticipation of future strategic planning initiatives, a central priority in the 2017/18 budget process was on closing gaps or partial funding in the existing budget. We made selective base budget allocations in areas where one-time funding had been a continued means of support. In addition, in several schools we provided funding to address the shortfall between the 1.6% growth in endowment payout and the 3.5% average anticipated growth in expense of a typical endowment fund.
- **Competitive Compensation**—Providing a strong and highly competitive compensation program for faculty and staff is a major priority in the 2017/18 budget. We recognize the challenges many of our faculty and staff face in this very high cost area. Over the years, Stanford has made substantial

efforts to enhance our housing programs, particularly for faculty. But the challenge remains. In partial response, we made supplemental salary allocations in this budget to address issues of market competitiveness, internal salary equity, and retention.

- **Building Financial Reserves**—It has been our general practice since the 2010 recession to carry a $25 million general funds surplus to protect the budget against potential revenue shortfalls. In 2016/17, due to lower investment income, we reduced that budgeted surplus to $15 million. For 2017/18 we have restored the budgeted surplus back to $26 million and created the $20 million base budget contingency noted earlier.
- **Slowing the Pace of New Program Investment**—In light of the uncertainties around research and the expectation of strategic initiatives emerging from the Long Range Planning process, we have reduced funding for new initiatives, compared to the budget proposals of recent years.
- **Housing**—This budget continues our multi-year strategy to expand housing opportunities for students, faculty, and staff, as the cost of housing continues to be Stanford's greatest challenge. We are addressing it with several aggressive initiatives:
  - We have begun a 2400-bed graduate student housing complex in Escondido Village.
  - The University Terrace Faculty Homes are opening, with the full 180-unit complex to be available by the end of calendar 2018.
  - Stanford is buying homes and apartments in the local area under the $500 million Housing Acquisition Initiative approved by the Trustees.
  - We are pursuing a proposal with the city of Menlo Park to build additional faculty and staff housing at 500 El Camino Real.
  - Next year Stanford will provide approximately $23 million in subsidies for off-campus apartments for graduate students.

While these initiatives will not address all of the housing needs of Stanford students, faculty, and staff, they are having a positive impact and will continue to improve the situation over time.

FINANCIAL RESERVES

Stanford has three principal categories of financial reserves:

Expendable reserves—We project Stanford's expendable reserves will stand at $4.5 billion at the end of 2017/18. Of that amount, $3.5 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. 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 $1.46 billion by the end of 2017/18. 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 the investment returns on a subset of 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 $1.06 billion by the end of 2017/18, which is close to its nominal value before the recession. 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.

CONSOLIDATED BUDGET FOR OPERATIONS

The table on the next page shows the main revenue and expense line items for 2017/18 and compares those numbers to our current projection of final results for 2016/17. 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 3.8%. Tuition income is projected to grow 3.7% over the projected 2016/17 actuals as the result of a 3.5% increase in the undergraduate and graduate tuition rates and a slight growth in the number of graduate students. Room and board income is projected to increase 4.3%, due to the 3.5% room and board rate increase, growth in meal plans, and the re-opening of the Schwab Residential Center.

University Sponsored Research—Sponsored research revenues (excluding SLAC) are expected to grow by 3.6%, while indirect cost recovery will increase by 4.2%. Direct research in the School of Medicine will continue its strong growth, increasing at 5.8%, while non-Medical grant funding will be flat. SLAC's revenues are expected to decline by 13.2%, due to a lower construction budget than in 2016/17. When SLAC is included, total sponsored research revenue is expected to decrease by 2.7% over 2016/17 projected year-end results. There is considerable uncertainty around these numbers, given the precarious state of the federal budget. We will be monitoring the situation closely as the year unfolds.

Health Care Services—Revenue from health care services is projected to increase by 11.6% in 2017/18. 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 last decade, with a compound annual growth rate of 11%. The 2017/18 growth is driven by continued expansion of Stanford Medicine's clinical activities throughout the region.

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 2017/18.

Investment Income—This category consists of endowment payout ($1,243.4 million) and other investment income ($275.8 million), principally from the Expendable Funds Pool (EFP). Endowment payout is projected to increase by 5.7%. The payout growth to a typical endowment fund is only 1.6% for 2017/18, but overall payout growth is higher due to additions to endowment principal and growth in real estate income in 2017/18. The Expendable Funds Pool payout is growing significantly in 2017/18. By Trustee policy, EFP payout is based on the total return of the pool in the prior year, up to 5.5%. In 2015/16 that return was just 2.5%, prompting a reduction in payout in 2016/17. We are expecting the full 5.5% return in 2016/17, which will produce the significant increase in the EFP payout for 2017/18.

EXPENSE

Compensation—We anticipate total compensation to increase 7.8% over 2016/17 year-end results. The increase is the result of a strong salary program, a 3.6% overall increase in headcount, and the targeted salary enhancements mentioned earlier.

Financial Aid—The costs for need-based financial aid, athletic aid, and graduate student aid will increase by 4.3%. This increase allows Stanford to maintain its generous need-based aid program for undergraduates, particularly for those families with incomes below $125,000. It also reflects a 4.5% increase in aid for graduate students, reflecting more generous graduate support in selected disciplines and a slight increase in the number of graduate students.

CONSOLIDATED BUDGET FOR OPERATIONS, 2017/18

[IN MILLIONS OF DOLLARS]

2015/16 ACTUALS	2016/17 BUDGET JUNE 2016	2016/17 PROJECTED ACTUALS		2017/18 CONSOLIDATED BUDGET	CHANGE FROM PROJECTED ACTUALS
			Revenues		
857	896	903	Student Income	937	3.8%
1,005	1,050	1,046	University Sponsored Research	1,085	3.8%
448	591	644	SLAC Sponsored Research	559	−13.2%
1,034	1,177	1,123	Health Care Services	1,253	11.6%
391	350	391	Gifts and Net Assets Released from Restrictions	391	0.0%
1,406	1,284	1,349	Investment Income	1,519	12.6%
540	534	508	Special Program Fees and Other Income	516	1.5%
5,680	**5,881**	**5,965**	**Total Revenues**	**6,261**	**5.0%**
			Expenses		
3,123	3,323	3,359	Compensation	3,622	7.8%
270	286	286	Financial Aid	298	4.3%
185	204	199	Debt Service	199	0.1%
1,541	1,781	1,781	Other Operating Expense	1,734	−2.6%
5,118	**5,594**	**5,625**	**Total Expenses**	**5,853**	**4.1%**
562	**287**	**340**	**Operating Results**	**408**	
(346)	(166)	(187)	Transfers	**(243)**	
216	**121**	**152**	**Operating Results after Transfers**	**165**	
2,990	3,238	3,206	Beginning Fund Balances	3,358	
3,206	3,359	3,358	Ending Fund Balances	3,524	

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 decline by 2.6% in 2017/18, driven largely by SLAC's reduced construction activity. Exclusive of SLAC, these expenses will grow by 3.3%.

SCHOOL INITIATIVES

Stanford's principal academic units, the seven schools, will advance their agendas in 2017/18. A few highlights of their plans are:

Graduate School of Business (GSB)—Under its new dean, Jon Levin, the Business School has launched a year-long strategic planning process focusing on the future of management education and the future of research. The GSB continues to expand its involvement globally; the Stanford Institute for Innovation in Developing Economies (Seed) will open a center in southern India—its third such international operation.

Earth, Energy & Environmental Sciences (SE3)—The school is pursuing a set of goals that emerged from a strategic planning effort last summer. The goals focus on engaging all Stanford students in gaining knowledge of our planet; expanding collaborations inside and outside the university; accelerating the impact of the school's research; and advancing planning for a new facility.

Graduate School of Education (GSE)—The GSE has launched its centennial year advancing several strategic priorities. One such area focuses on 'learners in peril,' those students who are disadvantaged by either social or biological causes, or both. The school has recently completed the early phases of a new building planning process and will expand the effort in 2017/18. Also, the GSE will further develop its partnership with local school districts in the coming year.

Engineering—The school welcomed a new dean this spring, Jennifer Widom, who has served in several key leadership positions in the school. Engineering continues to pursue several strategic initiatives that emerged from the SOE Futures planning process completed two years ago. There is a strong focus on computational research, particularly in computer science.

Humanities and Sciences (H&S)—Recent growth in faculty and facilities have placed H&S in a position of great strength, but have tightened its financial situation. Future faculty growth will be targeted to enhance diversity and to fulfill initiatives in Neuroscience and ChEM-H. H&S continues its efforts to increase student interest in the humanities and social sciences through new feeder programs for high school students and placement programs for graduates.

Law—Stanford Law School is in the midst of a generational shift in its faculty, with 17 new members joining the faculty over the past several years. There is an increased focus on interdisciplinary research and teaching. Several new faculty have joint appointments with other schools at Stanford.

Medicine—Stanford Medicine continues to develop its strategy for leading the transformation of biomedicine to Precision Health. This approach leverages the art and science of medicine to predict and prevent disease before it occurs and cure it if it does. The Medical School's research programs remain strong through recruitment of high potential and prolific investigators as well as investment in pilot grants to spur new research directions.

GENERAL FUNDS BUDGET

A focal point of the budgeting process is the development of the general funds component of the Consolidated Budget. The $1.25 billion in general funds in the non-formula units can be used for any university purpose and sustain many of the core academic and support functions of the university.

As shown in the chart on the next page, base general funds additions will total $74.7 million in 2017/18. About 40% will cover increases in continuing costs for salaries, benefits, non-salary costs, and the operating costs of facilities. We set aside $20 million as a general contingency. As 2017/18 unfolds, this money may be used to respond to potential changes in federal research funding; to provide capacity to address initiatives emerging from the Long Range Planning process; and to address potential shortfalls in endowment payout. The remaining $22.6 million will be split among endowment mitigation, enhancing existing programs, converting certain one-time expenses to the continuing base budget, and a small amount for funding new programs. These purposes are further delineated below.

Endowment Mitigation ($4.0 million)—As noted earlier, we allocated funds to cover the shortfall between the increase in endowment payout of 1.6% and the growth in expense supported by a typical endowment fund of approximately 3.5%. These allocations, directed principally to those non-formula schools relying heavily on endowment payout, reduce the need for those schools to draw on reserves or to make budget reductions to address the shortfalls.

Faculty, Academic, and Research Support ($6.8 million)—We continued our investment in the Faculty Incentive Fund and the Faculty Development Initiative to encourage ongoing recruitment of under-represented minorities and women to the faculty. We allocated base general funds to replace one-time funding in Environmental Health & Safety and in the administrative offices of the Vice Provost for Teaching and Learning. Enhancements were also made to the faculty child care programs.

Administration ($5.9 million)—This category adds funding in a number of administrative areas, including: part-time readers in the undergraduate admissions office; a student services professional in Engineering; expanded capacity in Development; and increased staffing in University Communications.

Systems and Security ($2.5 million)—We are adding funding for the ADAPT system in Development, the Graduate Financial Planning System expansion, and for Stanford Web Services. This category also reflects the addition of a sworn deputy position in Public Safety and the expansion of security patrols in parts of the campus.

Student Support ($1.7 million)—Some of the key items funded in this category include: staffing and operational costs in the Office of Community Engagement and Diversity within Student Affairs; financial aid for master's students in the Graduate School of Education; and supplemental funding for research assistant tuition allowance.

New Facilities Debt and Operations ($1.7 million)—This category reflects the costs of bringing new facilities online in the coming year. The most significant addition is the Bass Biology building, which is expected to open in late 2018.

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 2017/18 through 2019/20; 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 2017/18, as well as the full cost of projects starting within the rolling three-year period through 2019/20. The Capital Budget and Capital Plan are subject to change based on funding availability, budget affordability, and evolving university priorities.

The three-year Capital Plan includes $4.3 billion in construction and infrastructure projects and programs. The projects noted above, when fully completed over the multi-year period, comprise the bulk of the Plan. It also includes a number of smaller projects and several infrastructure programs anticipated over the length of the Plan.

ACKNOWLEDGEMENTS

In this, my first Budget Plan, it is a great pleasure to acknowledge the help and support of many people. 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 Margaret Brandeau, Harry Elam, Andrea Goldsmith, Judy Goldstein, Patti Gumport, Rosemary Knight, Randy Livingston, Kam Moler, Steve Olson, Serena Rao, 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 budget office staff, consisting of Kayte Bishop, Jacy Crapps, Neil Hamilton, Betsy Lewis, Mike Ling, Serena Rao, Davis Reek, Mark Rickey, and Dana Shelley, under the able leadership of Tim Warner.

The Capital Planning Group consists of Jack Cleary, 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.

Finally, a special personal thanks to both Tim Warner and John Etchemendy. Tim has been a patient teacher as I learn the complexities of the Stanford budget. John continued as a 'Special Advisor' and participated in the budget process after he stepped down from the provost position and helped at every step with the crafting of this budget.

REQUESTED APPROVAL AND ORGANIZATION OF THIS DOCUMENT

The Budget Plan provides a university-level perspective on Stanford's programmatic and financial plans for 2017/18. 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 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 2017/18. Chapter 2 addresses program 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 2017/18 and the Capital Plan for 2017/18–2019/20. The appendices include budgets for the major academic units and supplementary financial information.

Persis S. Drell
Provost
June 2017

TABLE OF CONTENTS

EXECUTIVE SUMMARY iii

INTRODUCTION: BUDGETING AT STANFORD 1

CHAPTER 1: CONSOLIDATED BUDGET FOR OPERATIONS 3
- Consolidated Budget for Operations 3
- General Funds 17
  - *Environmental Health and Safety (EH&S)* 19
- Projected Statement of Activities 20

CHAPTER 2: ACADEMIC UNITS 23
- Overview of Academic Units 23
  - Graduate School of Business 24
  - School of Earth, Energy & Environmental Sciences 26
  - Graduate School of Education 28
  - School of Engineering 30
  - School of Humanities & Sciences 32
  - School of Law 34
  - School of Medicine 36
  - Vice Provost and Dean of Research 38
  - Vice Provost for Undergraduate Education 40
  - Vice Provost for Graduate Education 42
  - Vice Provost for Teaching and Learning 44
  - Hoover Institution 46
  - Stanford University Libraries 48
  - SLAC National Accelerator Laboratory 50

CHAPTER 3: ADMINISTRATIVE & AUXILIARY UNITS 53
- Administrative Units 54
- Major Auxiliary Units 63

CHAPTER 4: CAPITAL PLAN AND CAPITAL BUDGET 67
- Capital Planning Overview 68
  - *Stanford's Commitment to Housing* 70
- The Capital Plan, 2017/18–2019/20 71
- The Capital Budget, 2017/18 78
- Capital Budget Impact on 2017/18 Operations 80
- Capital Plan Project Detail 80

APPENDIX A: CONSOLIDATED BUDGETS FOR SELECTED UNITS 85

APPENDIX B: SUPPLEMENTARY INFORMATION 103

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. 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 at the right.

BUDGET MANAGEMENT

At the end of fiscal year 2015/16, Stanford had roughly 23,000 active expendable funds and more than 8,000 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

2017/18 CONSOLIDATED REVENUES BY FUND TYPE

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 accordance with the donor's wishes, and each school must fulfill the expectations for teaching and scholarship within its available resources. Schedule 21 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.