SenD#6231
StCD#7514

TO THE MEMBERS OF THE ACADEMIC COUNCIL
FORTY-FIRST SENATE

Summary of Actions Taken in Administrative Session
of the Steering Committee on Behalf of the Senate
May 28, 2009

A. C-RUM: Recommendation for renewal of authority for the Honors Program in Ethics in Society (Hodder/Stephens/Reich) (SenD#6219)
The StC on behalf of the Senate approved the recommendation from the Committee on Review of Undergraduate Majors to renew the nominating authority for Honors nomination for graduating seniors for the Interdisciplinary Program in Ethics in Society for a five-year period from September 1, 2011–August 31, 2016.

B. C-RUM: Recommendation for renewal of degree-nominating authority for the Individually Designed Major in Engineering (IDMEN) (Hodder/Osgood) (SenD#6220)
The StC on behalf of the Senate approved the recommendation from the Committee on Review of Undergraduate Majors to renew the degree-nominating authority for Individually Designed Major in Engineering for a five-year period from September 1, 2009–August 31, 2014.

C. C-RUM: Recommendation for renewal of degree-nominating authority for the Individually Designed Major in Humanities and Sciences (Hodder/Stephens) (SenD#6221)
The StC on behalf of the Senate approved the recommendation from the Committee on Review of Undergraduate Majors to renew the degree-nominating authority for Individually Designed Major in Humanities and Sciences for a five-year period from September 1, 2009–August 31, 2014.

D. C-RUM: Recommendation for a new Honors Program in the Humanities (Hodder/Stephens) (SenD#6222)
The StC on behalf of the Senate authorized the newly created Individually Designed Honors Program in the Humanities to nominate candidates for the Honors in Humanities for a five-year period, effective September 1, 2009–August 31, 2014.

E. C-RUM: Recommendation for degree-nominating approval of the BA, BA with Honors, and Minor in East Asian Studies to be in the Department of East Asian Languages and Cultures (Hodder/Stephens) (SenD#6223)
The StC on behalf of the Senate approved degree nominating-authority for the Department of East Asian Languages and Cultures for the Bachelor of Arts, the Bachelor of Arts with Honors, the Minor, and Honors in East Asian Studies, effective September 1, 2009, without limit of time.

F. C-RUM: Recommendation for 1-year extension for Undergraduate Honors Program in Education (Hodder/Stipek) (SenD#6225)

As recommended by the Committee for Undergraduate Majors, the StC on behalf of the Senate approves a one-year extension of the Undergraduate Honors Program in the School of Education for the period of September 1, 2009–August 31, 2010.

SenD#6231

TO THE MEMBERS OF THE ACADEMIC COUNCIL
FORTY-FIRST SENATE REPORT No. 9

Summary of Actions Taken by the Senate
May 28, 2009

At its meeting on Thursday, May 28, 2009, the Forty-First Senate of the Academic Council heard reports.

Rex L. Jamison, MD
Academic Secretary to the University
Professor of Medicine, Emeritus

SenD#6231

MINUTES OF THE FORTY-FIRST SENATE
OF THE ACADEMIC COUNCIL
May 28, 2009

I. Call to Order

Vice Chair Harvey Cohen called the Senate to order at 3:18 PM. Chair Karen Cook was away from campus. There were 30 members and 8 *ex officio* members present.

II. Approval of Minutes – (SenD#6227)

The Minutes of the Senate Meeting, March 5, 2009, were approved.

III. Action Calendar

There were no items on the Action Calendar.

IV. Standing Reports

A. Memorial Resolutions

Chair Cohen welcomed Professor Ed Haertel from the School of Education to present memorial statements in honor of two of his colleagues.

Nathaniel Gage (1917-2008) SenD#6191

Nathaniel Lees Gage, PhD, Margaret Jacks Professor Emeritus of Education, died on August 17, 2008, at the age of 91.

Gage was universally recognized as the father of research on teaching. He created this field of study from earlier fragments of research and a personal vision of the field that emerged in his seminal publication, Handbook of Research on Teaching. *Yet his interests ranged broadly and throughout his career, major journals published his articles including social psychology, behavioral measurement, teacher education, IQ and race, and philosophy.*

Throughout his long career, Gage's faith in social science was unshakeable. He insisted that there can be, and should be, a scientific underpinning for the art of teaching, and he never wavered despite changes in research fashions over the years. Both his empirical work and his faith in this work provided a basis for our contemporary commitment to a role for traditional science in education research, and in the social sciences in general. His achievements as an empirical scientist and as a defender of the scientific study of education brought him the respect of researchers of all methodological camps.

In recognition of his stature in the field, the American Educational Research Association selected him as the 1988 recipient of its Distinguished Contributions to Research in Education Award. He also received the prestigious E.L. Thorndike

Award for Career Achievement in Educational Psychology from the American Psychological Association. And, at 80 years old, he received an honorary doctorate from the Université de Liège in Belgium.

Throughout his career at Stanford, Gage was a model faculty member in teaching, research and service. Perhaps what stood out most, in spite of his stellar career, was his humanity. He was always approachable, caring, and humorous. He and his wife, Maggie, were famous for inviting graduate students into their home for a good meal and hours of conversation and laughter.

Mr. Chair, I have the honor, on behalf of a committee consisting of Professor Richard Shavelson (Chair), David Berliner (University Professor at Arizona State University) and myself, to lay before the Senate of the Academic Council a Resolution in memory of the late Nathaniel Lees Gage, Margaret Jacks Professor Emeritus of Education.

All present stood in silent tribute.

Chair Cohen thanked Professors Haertel and Shavelson and asked that the Senate's appreciation be conveyed to Professor Berliner.

The full text of the memorial resolution will be published in the *Stanford Report*, June 3, 2009.

Richard Gross (1920-2004) SenD#6218
Richard E. Gross, EdD, Professor of Education (Emeritus), died of natural causes at his home in Los Altos Hills on April 2, 2004, at the age of 83. A graduate of the University of Wisconsin (Madison), from which he held both a BS and an MS, he taught social studies and history in a local high school before moving to Stanford, where he completed his EdD in 1951 and also obtained further teaching experience at nearby Menlo College. After four years as an Instructor at Florida State, he joined the Stanford faculty in 1956; he became emeritus in 1994.

To countless teachers and teacher-educators around the USA, and indeed around the world, Professor Gross will be remembered as a leading spokesman for history and social studies education, and for his efforts over many years to strengthen the curricula therein by way of his high-school and teacher-education textbooks. In all he authored or edited more than twenty volumes in these fields, including Civics in Action, Teaching Social Studies Skills*, and the prizewinning* Educating Citizens for Democracy *(1958); in addition he edited several influential book-series. He made further major contributions by producing 109 doctoral students and an estimated 700 MA students who in the main were being prepared for high school teaching careers, through his extensive consulting work in the USA and overseas, and through his work establishing professional organizations for social studies educators.*

Dick Gross used the opportunities provided by his many invited public addresses to champion the vision he held for social studies education. He attacked the approach that emphasized rote learning – what he called "the fatal right-answer syndrome"—and he argued that "youth need to learn to live in a world of tentative answers"; to this end (and true to his progressive educational principles) he advocated instead that teachers should focus upon teaching inquiry skills and the processes of learning, and that the social studies curriculum should be problem-based. But above all, he reminded his audiences of the relationship between social studies education and the strengthening of democratic institutions.

Mr. Chair, I have the honor, on behalf of a committee consisting of Professor Emeritus Denis Phillips, Professor Emeritus David Tyack, and myself, to lay before the Senate of the Academic Council a Resolution in memory of the late Richard E. Gross, Professor of Education Emeritus.

All present stood in silent tribute.

Chair Cohen thanked Professors Haertel, Phillips and Tyack.

The full text of the memorial resolution will be published in the *Stanford Report*, June 3, 2009.

B. **Steering Committee**

1. Chair Cohen announced the results of the election for next year's Senate Chair, Vice Chair and other members of the Steering Committee.

   Chair: Andrea Goldsmith
   Vice Chair: Andy Fire

   [Applause]

   Steering Committee members: Anat Admati, Lanier Anderson, Steve Boxer, Gordon Chang, Jeff Koseff and Virginia Walbot.

   Chair Cohen congratulated all of them.

   [Applause]

2. Chair Cohen informed the Senate that the Steering Committee, in the hour before the Senate session, met in an Administrative Session on the Senate's behalf, to hear seven items that did not need to come before the full Senate. All Senators received the agenda for that session and were welcome to attend the meeting. The materials for the items from that meeting are available on the website or in paper copy by request to the Academic Secretary's office.

A report of the Actions taken in that Session will be attached to the Minutes of today's meeting and also will appear in the June 3 *Stanford Report*.

3. Following adjournment the voting and *ex officio* members of the Senate will convene in an Informal Executive Session.

4. The final meeting of the 41st Senate is June 11. The agenda includes two reports: Professor Deborah Rhode will present a preview of the Survey on Faculty Quality of Life, and David Abernethy will present the annual Emeriti Report.

Following early adjournment of that meeting Senators will join the members of next year's (42nd) Senate, Chairs of the Academic Council committees, members of the Board of Trustees, and members of the Emeriti Council at the President's Reception in the Gold Room at the Faculty Club.

There were no questions for the Steering Committee.

A. **Committee on Committees (CoC)**
There was no report from the CoC.

B. **President and Provost Report**
President Hennessy was away from campus.

Provost's Report. The Chair invited Provost John Etchemendy to comment.

"I'm very pleased to say that the search committee for the new dean of the Graduate School of Business (GSB) completed its task, and provided President Hennessy and me their recommendation. We have invited Garth Saloner [Jeffrey S. Skoll Professor of Electronic Commerce, Strategic Management, and Economics, and a director of the Center for Entrepreneurial Studies at the Graduate School of Business], to be the next dean of the GSB, and he has accepted. I'm confident that Garth will be an outstanding dean and will maintain the excellence of our most excellent, top School of Business."

There were no questions for the provost.

V. Other Reports

A. Annual Budget Report (SenD#6212)
Chair Cohen invited Provost Etchemendy to present the Annual Budget Report. Slides from the Provost's presentation are available at:

http://budget.stanford.edu/2010_budget_plan.pdf

With the aid of slides, the provost began his presentation by thanking the many people throughout the university who helped make the difficult decisions regarding budget reductions, and particularly those who had to carry out those decisions.

Context

The provost showed a slide that contained two quotations from previous budget reports. The second quotation was from his presentation a year ago:

"Don't get complacent."

The first quotation was from five years before, when we were just getting through the effects of the bursting of the dot-com bubble:

"Don't panic."

"We then had five years of plenty and things were really very good. … But there were some signs of problems on the horizon. So I did not think the university should assume that those five years of plenty would continue forever. That [turned out to be] a little bit more prophetic than I like to be.

"In the last 45 years, we've had eight years prior to this year in which the investment returns [from the endowment] were negative. In the worst year, it was down 8%. This year, we believe [it's going to be] about 30% down. So it is truly an unprecedented budgeting event.

"What this means is that we will eventually have to reduce our endowment payout by 30%, nearly $300 million. The standard 'smoothing rule' [see *Stanford Report,* Vol. XLI, No. 14, January 28, 2009, which contains the minutes of the Provost's presentation of the planned budget reductions to the Senate] would have us cutting the budget for five years. … We decided in April—and this was probably the major decision of the year from a budget standpoint—that we would reduce the payout more quickly than the standard smoothing rule would dictate. The standard smoothing rule works very well when we're seeing natural ups and downs in our investments. It does not work very well when we see a 30% drop in investments. So we decided we would try to take the bulk of the reduction in payout in two years—10% next year and 15% the following year—about 25%. Hopefully, investments will have pulled up a bit by then and we'll be nearly done.

"So we decided to [make those major cuts] in two years. Why?"

There were two reasons. "First of all, taking five years of reductions, particularly since we would have to take those cuts whether or not the economy comes back, will be damaging to the morale of the university. So imagine that the economy comes back this coming year, as we all hope happens. We will still be taking reductions in the budget through 2015. That's harmful to morale. It makes it very difficult to get the community to understand why those reductions continue to be necessary.

“The second thing, and the more important reason, is that you don’t make the right decisions if you take a series of small cuts. … If you know you have to reduce the endowment payout by about 30%, you need to focus on that number and make strategic decisions where the institution should be when the payout has declined by 30%. Otherwise, what you’ll do is you’ll shave and shave and shave, and you won’t get to the same place that a strategic look would suggest.

“I want to emphasize something I talked about in the Senate earlier this year. One thing that faculty, students, staff, say very often is, ‘Why don’t we just spend down the endowment? We have this huge endowment. Isn’t that what it’s for? Why don’t we spend down the endowment rather than making budget cuts?’

“The answer is—we *are* doing that. This year we are spending $1 billion out of the endowment. Was that investment income? No. We lost 30% [on our endowment]. We didn’t have any investment income. [Instead] we’re spending down the corpus of the endowment by $1 billion.”

The provost pointed out that if you add to this year’s loss of 30% the spend-down, which is about 8% this year, that adds up to nearly 40% of the endowment that at the end of this fiscal year is gone. “You can’t go many years reducing your endowment by 40% and still have a strong institution. So the answer is, we do spend down the endowment, we’re spending it down at a frightening rate, and we can’t continue doing it.

“[The value of the endowment is] … not going to pop back up in the next couple of years. As President Hennessy said at the State of the University Address, as the endowment goes down 30%, it has to come back up 43% to get back to the value it was before. If you assume a 10% average annual return [on the endowment], assume 5.5% payout, and assume 3% inflation, it would take 25 years to get back to where it was last year, adjusted for inflation.

“We have to accept the fact that we have a new baseline budget.”

The provost summarized the guiding principles followed in making the budget adjustment.

1. Recognize and adjust as quickly as possible to the new endowment level.

2. Preserve core academic and research programs.

3. Protect need-based undergraduate financial aid and graduate stipends and salaries.

4. Protect programs insuring student health, safety and well-being, research support and compliance, and risk management.

5. Emphasize structural strategic decisions within units. “[By that I mean] … are there ways of restructuring to do things more efficiently? Or are there things we can do without? We saw an absolutely outstanding example [at the last Senate meeting] when John Bravman gave his presentation about restructuring of the VPUE [Office of Vice Provost for Undergraduate Education]—very thoughtful, innovative budget cuts that were very hard to make and, unfortunately, resulted in some layoffs, but that will make VPUE a stronger organization.”

Highlights of the remainder of the provost’s remarks were outlined in the next slide:

Consolidated Budget
- $38.6 million surplus on $3.7 billion in revenues
- Investment income to drop by $171 million (16.2%)
- Research projected to increase $102 million (9.9%); mostly Medicine and SLAC

General Funds Budget
- Projected surplus in 2009/10, balanced in 2010/11, slight deficit in 2011/12
- General funds unit cuts total $79.4 million, with most units cutting 13-15%
- Total reduction of $139 million by 2011/12
- Anticipate 300-350 staff layoffs; 50+ faculty positions frozen

Capital Budget/Capital Plan
- Capital Budget of $646 million in 2009/10; three-year Capital Plan of $1.8 billion
- Delayed or cancelled $1.1 billion in capital projects

“The consolidated budget will have $3.7 billion in revenue, about the same as this year. Investment income is going to drop by $171 million—16.2%. Research, because of the stimulus package, will increase substantially by $102 million, 9.9%—that’s mostly going to be in Medicine and SLAC.

“When we did the general funds budget, we looked ahead for three years and tried to budget so that it would be balanced [at the end of those] three years. We have come up with a budget that will have a surplus next year, will be balanced in fiscal year ’11, and will show a slight but manageable deficit in fiscal year ’12.

“How did we get there? By taking a number of actions. As you know, we froze salaries. We also made cuts in the individual general funds units that resulted in about $80 million in savings for next year.

“The reduction by fiscal year ’12 is going to be a total of $139 million in the general funds budget. We anticipate 350 staff layoffs. About fifty faculty positions have been frozen … until we can raise endowed chairs to allow us to search for those positions.

"For the capital budget, the main decision was that we delayed or cancelled more than a billion dollars worth of construction projects. It's still a very large capital budget for next year, and the three-year capital plan is still $1.8 billion after the reduction in projects."

Having gone over the highlights, the provost turned to the specifics.

Consolidated Budget

The provost showed a slide of the major elements of Consolidated Budget. In the following section, each element is presented separately.

Total Revenues and Expenses

CONSOLIDATED BUDGET (in millions)

2008-09 Projected		2009-10 Budget Plan	Percent Change	5-Year Change
$3,739	Total Revenues	$3,723	-0.4%	34%
$3,476	Total Expenses	$3,592	3.3%	36%
$ 83	Revenues less Expenses after Transfers	$ 39		

[The first column] "is our projected year-end results for the current year—fiscal year '09. [The second column] is the budget year for 2009-10. [The next column] is the percent change from '09 to '10. The last column, the five-year change, shows how each of these lines has changed from five years ago, between 2004/05 and 2009/10. I did that to make you feel better about next year's numbers.

[Laughter]

"The bottom line is that we're expecting the revenues to be almost exactly the same as the revenues from fiscal '09. Expenses we expect to increase by 3.3% … and the expected surplus is $39 million."

Student Income

CONSOLIDATED BUDGET (in millions)

2008-09 Projected		2009-10 Budget Plan	Percent Change	5-Year Change
$610	Student Income	$645	5.7%	31%
$206	Financial Aid	$218	6.2%	59%

"Student income is the tuition from undergraduates, graduate students, room and board income, $645 million, of which about $520 million is from graduate and undergraduate tuition. That we expect to go up by 5.7%. The reasons are several: One, we've raised tuition by 3.5%, tied for the smallest tuition increase in 30 years. … We also added a mandatory fee for the health center and health services. You can think of this as an additional increase in tuition, though there are reasons for separating it from tuition, as I explained at the last Senate meeting. If you add that, our total increase in tuition and fees is 4.5%. That's still lower than all but eight of the past 30 years. The other reason student income is going up is a slight increase in the number of students in the law school.

"Financial aid is going up by 6.2% to $218 million. That's undergraduate and graduate financial aid. Last year, we announced the most generous change in our financial aid program in the history of the university. Not the most generous *program*. When the university started, there was no tuition. That was more generous.

[Laughter]

"The situation we had last year was that our endowment payout was covering almost the entirety of our undergraduate financial aid. We felt that we could afford to substantially increase that program and fill in with unrestricted funds, in this case, the President's Fund and the Stanford Fund, for about five or more years, and we would raise the endowment necessary to support the financial aid program.

"We expected to spend about $20 million in unrestricted funds this current year. It turns out to be $26 million. … In the meantime the endowment payout was going down. So the unrestricted funds going into undergraduate financial aid we project will be $42 million next year—a huge amount. So we increased the financial aid program, frankly, at the worst possible time. But, of course, we couldn't predict it. Neither could any of the other universities that made similar changes at about that time."

<u>Sponsored Research</u>

CONSOLIDATED BUDGET (in millions)

2008-09 Projected		2009-10 Budget Plan	Percent Change	5-Year Change
$1,027	Sponsored Research	$1,129	9.9%	16%
	Breakdown…			
$ 529	(Direct Costs-University)	$ 567	7.0%	1%
$ 325	(Direct Costs-SLAC)	$ 370	13.9%	56%
$ 173	(Indirect Costs)	$ 193	11.5%	12%

"Because of the stimulus package, we expect sponsored research to increase next year substantially. It is primarily going to come into SLAC and the School of Medicine. The university increase will be 7%. That is, in fact, an increase of 14% at the medical school and about a 1% projected increase in the rest of the university."

The provost showed a slide depicting the ten-year history of sponsored research on campus, excluding SLAC. [Over the last six years] "… it's roughly been level. … Once you take into account inflation, our income for sponsored research has been going down. That's because the federal research budget has been flat or declined. [Furthermore] … the percent of sponsored research that is federal has been declining. That is a problem, because … federal research grants … pay twice as much in indirect costs as nonfederal grants."

<u>Health Care Services</u>
<u>Expendable Gifts</u>

CONSOLIDATED BUDGET (in millions)

2008-09 Projected		2009-10 Budget Plan	Percent Change	5-Year Change
$462	Health Care Services	$473	2.4%	68%
$225	Expendable Gifts and Net Assets Released	$225	0%	3%

"For health care services, we're projecting a slight increase. That mainly affects the medical school.

"For Expendable gifts, we're projecting about the same amount next year as this year. That's about a 20% decline over the previous year … the fact that it's only gone down 20% is just remarkable. It's a tribute to our Development Office, but, most of all, it's a tribute to our incredibly generous alumni. We expect it to stay about the same for the following year."

<u>Investment Income</u>

CONSOLIDATED BUDGET (in millions)

2008-09 Projected		2009-10 Budget Plan	Percent Change	5-Year Change
$1,057	Investment Income	$886	-16.2%	68%
	Breakdown…			
$ 933	(Endowment Income)	$830	-11.0%	84%
$ 124	(Other Investment Income)	$ 57	-54.2%	-26%

"As I said, we're projecting investment income will go down by 16.2%. [There are] two different lines. One is the proper endowment line. That's the revenue governed by the smoothing rule. That is going down by 11%. Other investment income [rental income and investment of the Expendable Funds Pool] shows something about the smoothing rule. That's not a 'smoothed number.' And you see the number is dropping by 54%."

The next slide was a bar graph showing annual investment income each year from 2000 to 2010 with a further projection to 2011.

"The endowment payout has gone up incredibly over this period. In 2008 we increased the payout from 5% to 5.5%. [In contrast it is projected to drop] from $933 to $830 million in 2010 and at the same time other investment income will decrease from $124 million to $57 million. [The following year, 2011] we're going to have a further drop of about 15% for the endowment payout to about $706 million. We have no idea what the other investment income is going to do, but we hope it will be up substantially."

<u>Salaries and Benefits</u>

CONSOLIDATED BUDGET (in millions)

2008-09 Projected		2009-10 Budget Plan	Percent Change	5-Year Change
$1,860	Salaries and Benefits	$1,903	2.3%	36%

"There's a complex story underlying this number for salaries and benefits. … We have laid off or are in the process of laying off around 350 people. On the other hand, we are expecting a large increase in research funding. That's going to result in new people funded by those research grants—postdocs, research associates, and so on. So we believe that next year the head count of the university will be roughly the same as it is this year. But that is not something for anybody to take comfort in, because it's unfortunately probably not going to be many of the same people. If we have to lay off a student services officer in one part of the university, while over in the medical school somebody is hiring a new postdoc, it's probably not going to be the same person.

"Why are salaries and benefits going up 2.3%? That's because even though we've frozen faculty and staff salaries, we have not frozen salaries for RAs and TAs. … We have also included a certain amount for [increases in salaries for] people who get promoted. We want them to get raises. And the cost of benefits is going up about 8.5%."

The provost, having finished his analysis of the Consolidated Budget by item, returned to the total expense line.

“Total expenses are going up by about 3.3%. A lot of that is the increase in financial aid. Even more is the 14% increase in sponsored research at SLAC. And embedded in the salary number is an increase in the number of people being paid from research grants, largely at the medical school. If you were to cancel all of [those items] out, the expenditures would go down by a significant amount. So in some sense it [the consolidated expenses] disguises what’s going on at the university. It doesn’t show the amount of cuts that have actually been made.”

The provost showed a slide of two pie charts illustrating the different sources of revenue and the distribution of expenditures of the Consolidated Budget.

“Looking at it by category, we expect sponsored research to be about 30% of the [revenue]. It was 28% last year. Investment income we expect to be 24%. It was 29% last year. Gifts, 6%; tuition, 14%, are roughly what they have been.

“What do we spend it on? We’re a ‘people’ organization. We spend 53% for salaries. And SLAC … [is another] 10%, and, of course, about half of its expenditures are also salaries. Financial aid is 6%, and other expenses are about 31%.”

The provost showed a slide of a pie chart illustrating the expenditures by unit. 73% was for academic units, which was broken down among schools in a second pie chart.

“If you look at expenditures by unit, about three-quarters are to the various academic units and about one-fifth to administrative units. Auxiliaries, the remainder, are units that generate revenue to cover their own expenses. They include, for example, housing and dining, and intercollegiate athletics.

“Among the individual academic units, the School of Medicine constitutes 42%; SLAC, 13%; H&S, 13%; Engineering, 10%; GSB, 5%; Law, 2%; Earth Sciences, 1%; Education, 1%. Then the ‘Dean of Research’—that’s all of the independent labs plus the research support infrastructure—is 6%; Libraries, 3%. The Hoover Institution, VPUE, and VPGE [Vice Provost for Graduate Education] [total] about 3%.”

<u>The Endowment and You</u>

The provost turned to the endowment.

“We do teaching and we do research. That’s our mission. We generate income from education. We charge tuition. But even full tuition doesn’t nearly cover the full cost of the education that we provide to the students. It covers about 60%. And then we give a bunch back in the form of financial aid.

“The research we do is mostly funded by the government. But we don’t recover the full cost of research by a substantial amount because indirect cost recovery is capped.

“So what a business model, right? We’ve got two things that we do and neither of them support themselves. How does that work? Well, the simple answer is—the endowment. Both [education and research] are subsidized by the endowment and by annual giving. If you remember nothing more about the university budget, that’s basically how it works.

“The provost reviewed how the endowment flows through the budget. There are three main sources of general funds: unrestricted endowment, tuition, and indirect cost recovery. We allocate [general funds] to all the units, all the schools, all the administrative units, and so forth.

“The units themselves have other sources of revenue. Those other sources of revenue in the case of the schools are endowed funds and gift revenue. Some of that is, at the school level, unrestricted, and flows into the school’s operating budget. That’s where most salaries are paid.

“In the larger schools, there are departments, and everything goes through the departments. The schools allocate a certain amount of operating funds to the individual departments. And departments themselves have their own funds, including endowed funds. Finally, somewhere out the other end is your salary.

[Laughter]

“The endowment figures in all of these various ways—at the level of general funds, at the level of school endowment, and at the level of department endowment. There is not a person at the university that does not benefit from the endowment. And if you think there is, I’ll explain why you’re wrong.”

[Laughter]

The next slide illustrated the consolidated budget of a school, excluding sponsored research.

“I want talk about the impact of the endowment reduction on the various schools. It depends upon how much of the consolidated budget of a school is funded by endowment. Different schools depend upon endowment in different amounts, ranging from Earth Sciences, in which 64% of its consolidated budget, excluding research, comes from endowment, down to Medicine, in which only 15% of its consolidated budget is funded by endowment. [That means] different schools will feel the endowment decline differently.

"… It's important to understand something about the endowment that flows into a school's operating budget. That's money, for example, from endowed professorships, that's going into the operating budget and paying salary or it's paying other core expenses in the operating budget. When that endowment declines, we do our best centrally to compensate for that decline … with general funds. This coming year, we're filling in three-quarters of the decline in endowed payout to the schools' operating budgets with general funds. We call this 'endowment mitigation funds.' So the schools won't be feeling the full 10% decline in this source of endowment. It's impossible to mitigate the drop in all endowed funds. We don't do that for funds that don't support the core operating budget of the schools or other units."

General Funds Budget

"General funds are the unrestricted funds in the university, about a quarter of the consolidated budget. [Their value will be] $863 million this coming year. Some funds are allocated to what we call the formula units [which consist of] the GSB, the medical school, and a few other small units. There's a formula that determines how much they receive in general funds. That's done automatically.

"The nonformula units receive their allocation each year. They come to the Budget Group, explain what they would like in either incremental general funds or what kinds of cuts in general funds they intend to take. There are also central obligations that we have to pay centrally—debt service, utilities, insurance, and so forth."

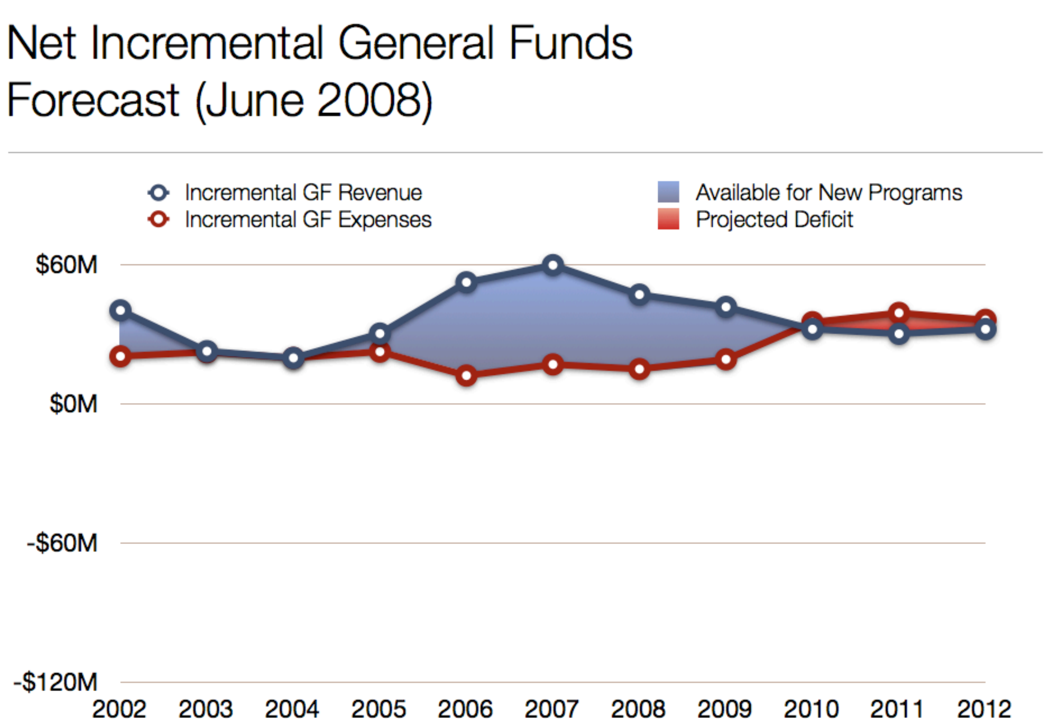

Figure One.
Legend: The Y axis is the net change in General Funds in millions of dollars including projections made in June 2008 that extended through 2012. The blue line and blue circles are the changes in revenue; the red line and red circles are the changes in expenses. The blue shaded area depicts funds available for new programs; the red shaded area depicts the projected deficit.

Provost Etchemendy commented, “Things were going up until this current year. It was looking like we were going to start seeing some deficits going out. … That’s why I said, ‘Don’t get complacent.’ It’s not looking as good.

“What happened in the fall?”

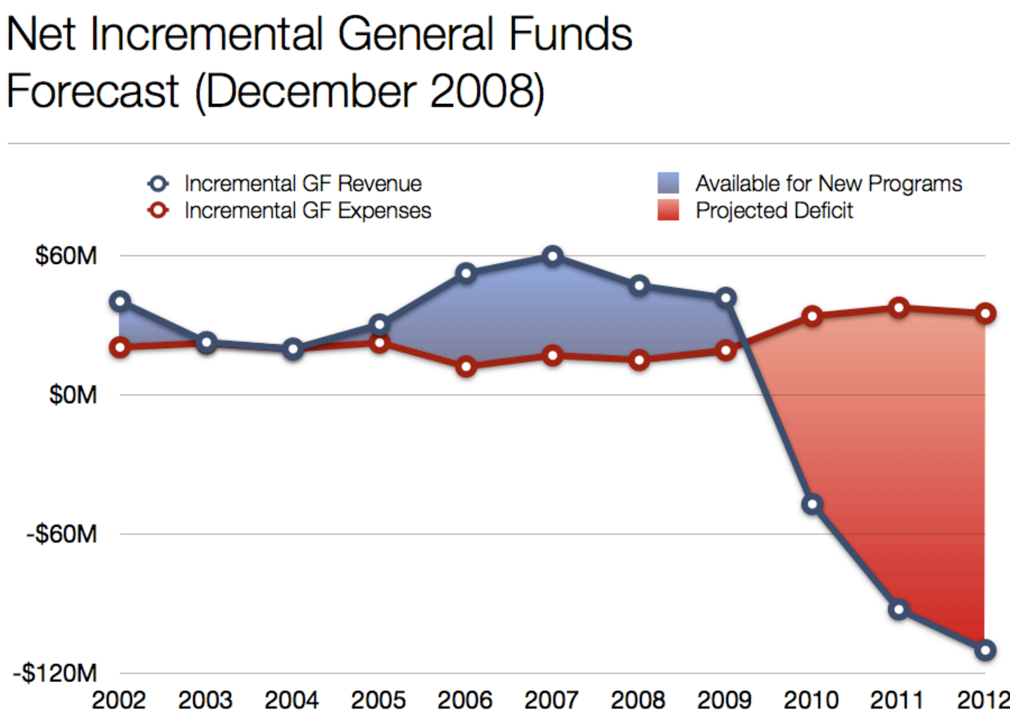

Figure Two. Legend: See Legend to Figure One.

“This is what we ended up facing by December, a rather large deficit and increasing deficit through these years. Our forecast in June 2008 was a balanced budget, going into some relatively small deficits. And in the fall … the big changes were the endowment payout reduction and the Tier I buffer reduction that I’ve talked about. Those two together constitute about an $80 million difference in our projection in the wrong direction. By December, we were projecting a $78 million deficit in fiscal year ’10, growing to $154 million by fiscal year ’12.

“What did we do to solve this problem?

"First, we did some central things. We reduced the facilities reserve, the housing reserve, and the operating reserve. The facilities reserve is the annual amount of money we spend on small projects. [For example] if you hire a faculty member, you may [need to renovate] a lab, or remodel a department office. Housing reserve is for faculty/staff housing assistance. Operating reserve is used for one-time money.

"We've reduced the Capital Plan by about $1 billion in projects. That doesn't mean suddenly we have $1 billion in our budget, because the way the capital projects affect the budget is in the form of debt service on the money that we have to borrow to build the projects. A new building also hits the budget with operations and maintenance and utilities. If you don't build a building, you don't have to maintain it.

"By delaying projects, you don't immediately get the full benefit, but the benefit increases as those projects would have been finished. The savings increases over the three years from about $4.8 million to about $10 million in fiscal '12.

"We took a salary freeze this year. That netted about $16.5 million in general funds, which will grow to a savings of about $17.9 million by 2012. This always scares people. Does that mean we're having salary freezes next year and the year after, too? No. What it means is that you're not getting raises in the fall, and so even though you will get an increase the following year, we still save the money you would have received had you gotten an increase in both this coming year and the following year. The reason the savings grows slightly is because we don't give raises on the raise that you didn't get. But we *are* assuming that we will have salary programs in the next couple of years.

"Tuition income. As I said, we will have some additional law students. [As for] undergraduates … we had planned next year to decrease the number of admits by 100 students … to help us with our housing program. We decided we could not cut down by 100; instead we could cut by 50. So it's less of a decrease than we had planned. We're also increasing the application fee to $100.

"The campus health service fee will generate about $7.2 million next year.

"[The final and largest change was] the reductions in the units—about $80 million next year, growing to about $91 million in fiscal year '12. All of these reductions together will produce a $40 million surplus next year, a balanced budget the following year, and a deficit—but a more manageable deficit—in the third year."

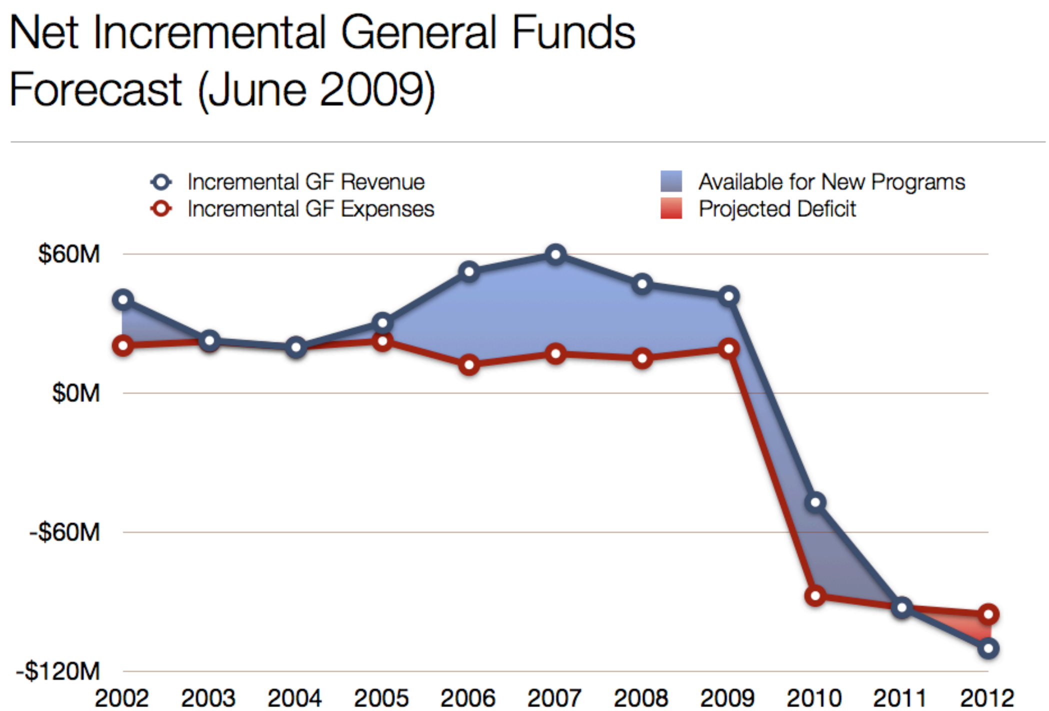

Figure Three. Legend: See Legend to Figure One.

"… These cuts will produce a balanced budget in 2011 and a slight, but manageable deficit in 2012."

The provost then examined in more detail the budget cuts, using slides of pie charts.

"The next slide is a pie chart illustrating the reductions in general funds by *strategy*. The two largest reductions were 41% in general non-salary budgets and 30% in 'headcount' reductions.

"This is a summary of funding reductions by strategy. General non-salary is a kind of belt-tightening—41%, or $32.6 million in general nonsalary reductions. Straight headcount reduction—that's where you're doing the same thing you were doing before, but you're going to try to do it with fewer people—30% of the reductions."

The provost pointed out the several smaller reductions—in programs, staff reorganizations, salary reductions (voluntary, by the senior administrators), outsourcing. Funding shifts were savings achieved by shifts of things that were paid for by the general funds budget to other sources of funding.

The next slide was a pie chart illustrating the reductions in general funds by *expense type*.

"Looking at the reductions by expense type, about half are not salary … and about half are salary. That's not surprising, given that 53% of our consolidated budget is salary. 39% of the reduction is from staff salary, and 5% from faculty salary (meaning frozen positions). It's by attrition; we don't fire faculty. Maybe we should reconsider. But we don't.

[Laughter]

"Unfortunately, much of [reduction in salary] is from staff layoffs. That's really the tragic part of the process. [With regard to] grad students' stipends and TA salaries, the reductions [totaling 4%] are not because we've reduced stipends. In fact, we've increased stipends. But many schools are either shifting those stipends to other sources of funds or cutting down on the number of positions."

The next slide was a final pie chart illustrating the reductions in general funds by *function*.

"By function, most came out of general administration … we said that our first principle was to protect teaching and research mission as much as possible. So not surprisingly, 57% of the cuts came out of the administrative part of the operation. There was 13% from teaching and research; Information Technology is also 13%. Outreach and development reduction accounted for 7%. That actually is a function that got hit very hard. Unfortunately, it's a very important function. But it is not teaching or research. [Other reductions included] 4%, student services; 3%, program support and less than 1% in student salaries. … This is again not from reducing what we're paying any given student, but from reducing the number of student positions or shifting them to other parts of the budget."

The next slide was a table showing the reductions in general funds by academic units, which ranged from 12.2% to 15%, and Administrative Units, which varied from 9.8% to 15%. The weighted average was 13.7% in the academic units and 13.5% in the administrative units.

"These cuts are more across the board than I had expected. The reason for that is when we started this process in the fall, we did not realize how much we would have to cut. We asked all the units to come up with scenarios in which they were going to cut 5%, 7.5% or 10%, in the context of a 15% two-year reduction. It turned out that we needed to cut more on the order of 15% [the first year]. So that, naturally, is going to end up giving us more across-the-board cuts.

"On the other hand … we were very careful to look at the individual cuts. It seemed as if the damage or the pain was roughly the same for the different units. The things that we felt could not be taken were excluded from the cuts."

The provost then showed a slide depicting the cuts to the five non-formula schools (Earth Sciences, Education, Engineering, H&S, and Law) plus the administrative units using four different bases of comparison: 1) the FY 2009 general funds plus endowment mitigation; 2) the total general funds allocation; 3) the operating budget; and 4) the consolidated budget (non-research).

"What's the right base to look at? I have no idea. They're all relevant in different ways. And it's a very complex situation. And different—you know, for different purposes, you're going to have arguments about which cuts were …"

Professor Jones interrupted to point out, "You haven't said anything about whether there's a reduction in general funds to the formula schools."

Provost Etchemendy answered, "… In the case of the School of Medicine, the formula is based on revenue streams; so it automatically adjusts. In the case of the GSB, it's based on the tuition generated by the MBA students; so it automatically adjusts. In the case of the GSB, it's actually going up, because their tuition is going up. But the GSB has not gotten off scot-free. Indeed, it has been hit harder proportionately because its operating budget depends so heavily on endowment and gifts.

"Let me just conclude this by saying—what does 'recovery' mean? I mentioned at the beginning the president's description of how long it might take for our endowment to get back to the level it was last year, adjusted for inflation. And it looks like a long process. What I want to emphasize is—that is not what recovery means. We do not need to get back to where we were in 2008 to have recovered. We have to accept the new revenue baseline. What recovery will look like is: 1) when we get the budget reductions behind us, when we've … made the cuts, 2) when our continuing revenue streams, including the endowment payout, have gotten to the point where they are growing with inflation, so that we're not doing further cutting, and 3) when we then can turn our attention … to generating new income to support new initiatives.

"When will that happen? I think that that's going to happen within two or three years. I think with the cuts that we've made in the general funds budget and with the accelerated decline in the payout that will have worked through the system in two years, we will be back in growth mode again within a few years."

Capital Budget and Capital Plan

In his final comments, the provost turned to the Capital Budget and Capital Plan by showing a slide giving an overview.

Capital Planning Overview

- Capital Budget, 2009/10: $646.7M
- Capital Plan, 2009/10–2011/12: $1.8B
- In January, $1.3B in projects delayed
- Recently, reactivated $230M:
  Bing Concert Hall
  Scientific Research Computing Facility
  Stanford Avenue faculty homes
  East Campus Dining Commons
- Estimated $65.3M deferral of debt service and operations and maintenance

"The capital budget does not spend general funds. This spending includes debt or donations that have come in to pay for these buildings. It is not a direct hit on the budget—about $650 million on a capital plan that is about $1.8 billion. We delayed $1.3 billion in projects. We did reactivate four projects for very different reasons:

"We will probably build a research computing facility that will actually save us money.

"As for Stanford Avenue faculty homes, we still need housing. We're going to have new faculty. If we don't pay for that housing here, we're going to pay for it when they buy their houses elsewhere, through the faculty housing program. It really is—it's a wash.

"The east campus dining commons will save housing and dining money.

"The Bing Concert Hall. For this project, we have a major donation from Peter Bing. … Peter has been perhaps one of the most generous donors in the university's history. We want to move forward on that project right away to get it completed.

"If you take all of the $1.1 billion in deferred projects—if we never did those projects, it would save us $65 million in debt service and operations and maintenance in the long term. But, of course, we will eventually build most of those projects. It's not a permanent savings."

The provost showed a slide that listed the delayed and suspended projects—19 in all, ranging from the Redwood City Plan ($379M) to a childcare center for $5M.

"They vary from projects that really are, in effect, cancelled to projects that are delayed but we are going to try to move forward on them as soon as we can if we can get the funding required. The Redwood City administrative campus is delayed. And we can delay that indefinitely if we need to. One thing about the layoffs is, of course, it has eased the pressure on space on campus.

"On the other hand we are going to move forward as soon as we can on the biology building, the art building. [But as for the] Memorial Auditorium renovation, not in my lifetime."

[Laughter]

Professor Blas Cabrera interjected, "What about the auxiliary libraries?"

Provost Etchemendy responded, "If we don't build the auxiliary libraries pretty soon, I guess Mike [Keller, University Librarian] is going to have to start burning books."

Professor Philippe Buc suggested, "Put them in a bathtub."

The provost had another idea. "What if all the faculty took 500 books home …"

[Laughter]

Professor Brad Osgood reminded him, "We already do that."

[Laughter]

The provost then showed his last slide.

Three-year Capital Plan

	Project Schedule	Estimated Project Cost	Capital Budget 2009/10
SEMC (5 of 8 buildings)	2005-13	$ 684 M	$217 M
Knight Mgt. Center and Parking	2006-11	374 M	185 M
Bing Concert Hall	2009-12	133 M	31 M
Law School Clinics and Offices	2008-11	71 M	37 M
Scientific Research Computing Bldg	2010-12	47 M	2 M
Gunn Building (SIEPR)	2007-10	32 M	7 M
Stanford Avenue Faculty Homes	2008-11	31 M	14 M
Freidenrich Center	2010-12	23 M	3 M
Crothers renovation	2008-10	22 M	8 M
Center for Nanoscale Science Fitup	2009-10	20 M	18 M
East Campus Dining Commons	2009-11	20 M	17 M
Other capital projects	—	51 M	28 M
Infrastructure projects & programs	—	$294 M	81 M
TOTALS		**$1,801 M**	**$647 M**

Note: SEMC, Stanford's Science, Engineering and Medical Campus. SIEPR, Stanford Institute for Economic Policy Research.

"This is the remaining three-year capital plan. Five of the buildings in the SEMC [Science, Engineering and Medical Campus] are included. That's the Engineering

Center, the Nanocenter, the Stem Cell Center, the Learning and Knowledge Center, and the Bioengineering Building. We have not yet started the Bioengineering Building, but it will be the fourth building on the new Science and Engineering Quad. The Knight Management Center is entirely funded by gifts (that's the new campus for the GSB). The SIEPR building is close to completion. That's also 100% gift funded. The Freidenrich Center is in the medical school and is for research in translational medicine. Crothers Hall [is to undergo] renovation."

The provost ended his presentation by offering to take questions.

Vice Provost John Bravman asked, "John, with most of the stimulus [research] money going to SLAC and the medical school, is the indirect cost recovery for the entire institution—is it all pooled?"

Provost Etchemendy replied, "For SLAC, no. SLAC indirect costs are handled differently because it provides all of the utilities, and so on. As for the medical school, some of those [indirect costs] will flow centrally, but a lot of it will go to the medical school. That's part of the formula. [By the way, our] projection that the nonmedical, non-SLAC research budget is only going to go up by 1% is from conservative projections from the schools. We take the projection the schools give us. I actually expect that those research budgets will go up more."

Professor Ralph Horwitz noted, "John, you had mentioned at an earlier meeting that the expendable funds depend on what happens with investment returns that fill up tier I and tier II pools. What's the forecast for that [revenue]?"

Provost Etchemendy replied, "It completely depends on the investment results. The expendable funds pool is there, and will always be there because it's guaranteed. But we do use it as a source of investment … cross-investing it with the endowment. Your guess is as good as mine. I expect and hope that next year we will have positive investment results. How positive? Is it going to be 8% or 10%? Will it be 5%? I can't say."

Professor Buc commented, "So you've explained that we're not going to be taking small cuts in the payout over five years here and there. You said the advantage of [larger cuts in] two years will help make strategic plans. What are going to be these strategies in the next two years? Can you tell us what you're thinking about and what we have to expect in terms of … a strategy, which means you're going to go in one direction as opposed to just making everything go down."

The provost replied, "Most of that level of strategic thinking is going on at the school level, school budgets and the administrative units. There are some cross-school, cross-university changes that we have discussed centrally. But [these are about] relatively small amounts, for example, research support. How do you deliver research support to a school as a whole? How much of it should be centralized and how much of it should be distributed? Similarly with development: How much development should be in the central office? How much should it be out in the schools? This is some of the global strategic thinking that goes on. But most of the substantive strategic thinking goes on at the school level."

Professor Buc said, "So we should expect, say, in the fall, some discussions with the schools or some presentation of the strategy?"

Provost Etchemendy nodded. "But you've also had it all year, this year and will next year."

Professor Andrea Goldsmith, "I've been fortunate to see both your 2003 and this year's budget discussions. You're not the luckiest provost to have been involved in all of these discussions of major cuts, major changes, and growth. Given the volatility this year, which is unprecedented, and what appears to be more volatility, is there any strategic thinking about changing the allocation strategy … to plan over a longer period for the volatility increase?"

The provost replied that the allocation within the endowment investments is something that is considered and debated constantly by the Stanford Management Company that oversees the investments and in the board of the Stanford Management Company. "We are fortunate to have some of the very best investors in the world, both running the management company, and on the board. They do discuss that. We have an extremely diversified investment portfolio. Why? Because that dampens out volatility. And most years, it really works. Why have we had 45 years with almost all positive results? It's because when, say, the stock market's down, oil and gas is up. Our investments are extremely diversified.

"The problem this fall was that everything went down, and everything went down substantially."

Professor Goldsmith clarified her comment. "My question was slightly different. It was more the smoothing formula that's been applied to manage smaller volatility than we've seen this year. Is that under consideration so that we don't face the kind of drastic action that we did?"

Provost Etchemendy replied, "No—in fact, exactly the opposite. The smoothing formula works in general. Mind you, it is not carved in stone. What we do every year is make a recommendation to the trustees for the payout in a dollar amount. We generate that dollar amount by using a smoothing formula. But at any point, we can say, 'We recommend a different amount,' and that's in fact what we're doing the next two years. We're recommending a different one than the one created by the smoothing formula. But I think our smoothing formula is extremely good for normal volatility.

"In a case where we have a big drop like this … we made a special decision. We suspended the smoothing formula—but not to smooth *more*, but to smooth *less*. We decided we needed to move more quickly. So the answer to your question is, no, we would not consider coming up with a formula that would smooth even more. Our current one does a good job of that."

Chair Cohen thanked the provost for his report.

[Applause]

Chair Cohen added, "You can see that the faculty are interested in the budget. We'd also like to be part of the solution as we go forward. I know you mentioned there was involvement. I think the more you can involve the faculty in coming up with solutions, good year or bad year, the better it would be for all of us."

VI. Unfinished Business
There was no unfinished business.

VII. New Business
There was no new business.

VIII. Adjournment
A motion to adjourn was made and seconded and approved by voice vote. Chair Cohen declared the meeting adjourned at 4:40 PM.

Respectfully submitted,

Rex L. Jamison, MD
Academic Secretary to the University