

Our financial future

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To our Stanford community,

Over these last many weeks, our university community has persevered through a time of disruption and uncertainty. I'm deeply grateful for all that you have contributed. From the front-line health care providers in our hospitals, to our students and faculty who have transitioned to new learning models, to our staff working both at home and on-campus to continue supporting our community, your resolve and adaptability have been inspiring. Thank you for the many ways you're continuing to support Stanford and each other.

I'm writing today to provide an update on our financial future. The coronavirus pandemic has reinforced the vital role that universities like Stanford have to play in our modern world. The mission of developing and disseminating knowledge has never been more urgent. At the same time, the pandemic has brought us significant financial challenges. As we confront them, we must both steer Stanford through the immediate crisis and also ensure that the university emerges from it firmly positioned to continue advancing our mission.

For the first six months of the crisis, from March 1 to August 31, which marks the end of Fiscal Year 2020 (FY20), we are forecasting a \$267 million negative financial impact from COVID-19. For next fiscal year (FY21), we expect our financial challenges to be as great or even greater. Many of our income streams will continue to be diminished: Housing revenue will be reduced due to fewer students living on campus; income-producing events and programs will continue to be limited; and clinical, research and philanthropic income streams will be challenged. At the same time, expenses in some areas, such as student financial aid, will increase. The market volatility affecting our endowment also can be expected to continue, given the seismic disruptions occurring in the national and global economies.

Our approach to date has been to steady our financial situation with one-time measures, including applying reserves where available and taking a series of actions to reduce expenses. These include a salary freeze, a hiring pause, a pay reduction for senior leadership, reduction of discretionary spending by departments, and a hold on approvals of all new capital projects.

Here, I'd like to share our plans for our next steps, first for the remainder of this fiscal year, and then for FY21. Given the continued large uncertainties in the world and our nation, our plans for next year remain in flux, but we nonetheless wanted to share our current thinking.

FY20: Pay continuation through August 31

Since the beginning of this crisis, one of our priorities has been to provide continuing support for our community during this period of

turmoil while we have been working to identify what the longer-term impacts of the crisis will be for the university. One of the steps we took was to assure pay continuity for all benefits-eligible university employees through June 15, even if the need for their services has been reduced due to the pandemic.

We are now coming to a greater understanding that the effects of this crisis on the university's finances will last well into the future. We must plan not just for a temporary budget blip that disappears by this fall, but rather an ongoing challenge that requires us to re-set expectations and chart a new steady state for the university's operations. We will need to account for this shift in our FY21 spending, as I'll describe below.

In the interim, however, as we lay the groundwork for our longer-term plans, we are extending pay continuation for benefits-eligible university employees through August 31, 2020, the end of our fiscal year. We hope this will help members of our community navigate the disruptions that many families are experiencing in this unprecedented time of transition. (For employees of contract firms who normally provide services at Stanford during the summer months, we will continue through August 31 our previously announced policy. More information is [available here](#).)

FY21: Possible program and workforce reductions

The longer-term challenges facing the university are significant, and we will need to realign our spending with the resources expected to be available in the new fiscal year starting September 1 and beyond.

Each unit of the university receives funds for its operations from a mix of different sources, such as research grants and contracts, expendable gifts, and health care services, as well as general funds and endowment payout. We previously asked university units to prepare FY21 budget plans based on a scenario with a 15 percent reduction in funding from endowment payout and a 10 percent reduction in support from general funds. We sincerely hope that the reductions needed will be smaller than this, but for now we need to plan to these targets as a contingency. We expect to provide final allocations of general funds and endowment payout to units by the end of June, enabling them to finalize their budgets in July.

As units plan for budget reductions, we expect there will be reductions in some of the programs each of them is able to offer. We will work to ensure that any program reductions still allow us to sustain Stanford's core academic strengths and our long-standing commitments to student access.

Given the magnitude of the budget challenge, we also expect that program reductions will make some workforce reductions unavoidable as we enter the new fiscal year. We don't yet know the scale of job reductions. We hope they will be limited, but they will be driven by the program needs and budget capacity of individual units. Our expectation is that some of these reductions will be temporary layoffs (furloughs) until we are able to resume services and bring employees back, and that other reductions will be permanent layoffs. At this time, we expect to be able to communicate more detailed decisions about layoffs in late July.

I know this is difficult news to hear, and it is difficult for me to share, knowing the dedication and contributions of the people across our Stanford workforce. To be clear, we will provide pay continuation through August 31 in all cases, and we will be providing more information about assistance the university will provide for anyone we're unable to retain. Initial information about these issues, and other issues of interest to our employees, is available in an FAQ [on the Cardinal at Work website](#).

Next steps

In order to provide units with their allocations in late June, we will be working over the next month to refine our understanding of anticipated revenues and shortfalls. We will also be consulting with the Board of Trustees on the level of endowment payment that will be possible for the coming year, and evaluating other possible sources of budget relief.

Persis and I will be holding another "Conversation with the President and Provost" where we will discuss all of these issues and be available to take your questions. This session will be held Monday, June 1, at 1 p.m. Pacific time, and more details are [available here](#).

Stanford has weathered many challenges over its history. I recognize the difficulty that will come with some of the steps we will need to take in response to this current challenge. They will allow us to sustain Stanford's mission of teaching and research for a world that desperately

needs it - the mission that brought so many of us here to begin with. I deeply appreciate your partnership as we navigate this period.

Sincerely,

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