

Male Steps or model

Does Stanford Need the Money from Land Development?

As Stanford rushes ahead with a land development program that worsens the housing shortage, congests the roads and irreversibly harms the area's ecology, many people are demanding to know why the University must continue to consume its open lands. The University answers that increased income from land development is essential to help meet the budget squeeze.

In fact, the University can hope for only a miniscule income from the two big projects now under way, the Coyote Hill industrial park and the Dillingham office-convention complex at Page Mill Road and El Camino. Combined, they ~~will~~ could bring the University an additional income of no more than \$400,000 a year. (This compares to a total operating budget of \$121.5 million in 1968-69.) By comparison, the University will boost its income by \$2.5 million next year through a tuition increase. ^{Similarly,} A more intelligent investment ^{management} policy for the University's endowment would increase income by several million dollars a year.] IS THIS OUR GIM?

Historically, Stanford's land development program seems to have benefited the ~~poor~~ prosperous tenants much more than it has the University's treasury. The Stanford trustees don't allow the University to spend any of the direct annual returns from leases and rentals on Stanford land. Instead these funds are paid into the University's permanent endowment. The endowment is invested in stocks and bonds which in turn yield the University an annual income. The part of the investment commercial endowment income attributed to land development has been:

(years ending 3/31)

1969	\$ 1.52 million
1968	1.38
1967	1.32
1966	1.32

(from Land Development Annual Report 1969. Totals omit the income attributable to condemnation of Stanford land by public authorities for roads and other uses, which was \$487,000 in 1969.)

~~---\$877,538 in 1969---~~

Most of this income ~~comes~~ comes from the Stanford Shopping Center, a ^{successful} development consuming only 61 acres out of the 940 which the University has given over to private development. The entire ^{571-acre} Industrial Park, which is primarily responsible for the severe mid-peninsula housing shortage, earned the University only \$601,079 in 1969.

One reason for the modest return on the commercial development is the need for the University to sink millions of dollars into planning, roads and utilities to make land suitable for development by private parties. For instance, the University spent \$1.9 million through 1968 on the Industrial Park, so that it could add some \$13.5 million to the endowment in the form of pre-paid 50- and 90-year leases. ^{From tenants -} For the Welch road professional area, the University spent \$822,280 in development costs compared to \$2.3 million in prepaid leases, ^{amortization} an ^{each year} expense so heavy that the University consistently loses money on this development. ?

But the major reason for the University's mediocre showing in land development is the poor investment practices used to manage the University endowment. In 1969 the \$210 million invested portion of the endowment earned at a rate of only ^{4.7} ~~4.7~~ percent. Since 1956, the earnings rate has never exceeded 5 percent. The market value of the stocks and bonds has increased in value somewhat since 1956, of course, but not as fast as inflation. The trustees have promised to invest the endowment more efficiently, but as yet these promises have not shown results.

The Coyote Hill and Dillingham projects will not directly augment the University's income; rather, they will add lump sums to the University's endowment. On Coyote Hill the University is spending more than \$1 million to carve up the ¹⁷⁷ ~~143~~-acre site and build two ⁸ ~~four~~-lane roads. If all 12 lots are leased, the University hopes to add about \$5 million in prepaid leases to the endowment, for a net endowment gain of \$4 million. At the present rate of earnings on the endowment, this will give the University ^{only} ~~an~~ \$200,000 in annual income. The 21-acre Dillingham site will be leased to that company for 50 years in return for a \$3 to 4 million ^{prepaid lease,} ~~dollar~~ payment. The ~~return~~ ^{investment income} to the University each year will not exceed \$200,000.

In arguing for continued land development, the University business office is fond of pointing out that the University saves money by transferring the property taxes on land to the ~~industrial and~~ commercial tenants. We are told that the Dillingham project, for instance, will save \$40,000 in property taxes that will now be paid by the ~~leasee~~ ^{tenants}. The property tax argument depends on backwards reasoning, however. Most University land is tax-exempt. The reason why Stanford is assessed for property taxes on 1,714 acres of vacant land is that it has set aside these ^{uses} lands for commercial, instead of academic uses or a conservation program. ~~These~~ ^{Practically} ~~lands should be returned to~~ all of these lands should be returned to the tax-exempt reserve. An "agricultural greenbelt zoning" plan exists under the California Land Conservation Act that would facilitate the preservation of open lands without incurring a tax burden.

If the land development program gives only minor financial support to Stanford, then who does reap large benefits from the program, and why does it continue?

The Stanford Industrial Park started in 1951 not as a revenue-producing scheme, but rather as a deliberate effort to establish electronics firms in close proximity to the Stanford engineering school, for ~~the~~ mutual profit. Frederick Terman, then Stanford's provost, envisioned the industrial park as a place where faculty members and others could exploit scientific discoveries by establishing companies, where the engineering school could find employment for its graduates and recruit new students, where the engineering school could keep in close touch with the immediate needs of private industry, and where faculty members could find part-time employment as industrial consultants. His vision became reality. Among the Industrial Park firms that grew out of engineering school research are Varian Associates, Hewlett-Packard, Metronics, and Watkins-Johnson. Terman and other engineering faculty ~~became~~ ^{grew} ~~greatly~~ very wealthy as a result of their foresighted investment ~~in~~ early in the life of such firms.

TYPICAL

It was Fred Terman who started Stanford land development policy, and it was the Board of Trustees who formalized it and continued it. In 1955, shortly after ~~William Hewlett and David Packard gained ascendancy within the Board,~~

Since the mid-1950's, the Board has been controlled by corporate executives who had direct financial interests in the electronics industry, construction and real estate. ^{These men stood to benefit by Stanford's land development.} Trustees who were also directors of Hewlett-Packard, Lockheed, Utah Construction & Mining,

^{and ?} → moved some of their firms' operations onto the prestigious, ideally-situated Industrial Park land. ~~Their firms' operations~~ These men gave generous recognition to the service^s which the University performed for them, however. During ^{Some} ~~several~~ years the gifts from Industrial Park firms have ^{far} exceeded the University's earnings from the land development itself, according to financial vice-president Kenneth Cuthbertson.

The cosy relationship has been succinctly summarized by Stanford's University Relations office: "Another feature of the ^[land] program has been the strengthening of the University's academic departments through cooperation with firms in the Industrial Park. From industry have come students, lecturers, research projects, scholarship funds and capital gifts; into industry have gone faculty consultants, graduates and research results." ("Questions and Answers About Stanford Land Development," Nov. 25, 1969).

Over the years, the University developed a sizable bureaucracy with a strong vested interest in the continued development of Stanford land. This is the Business Office, headed by vice president Alf Brandin, himself a stockholder and director of Industrial Park firms. ^{Some} ~~These~~ administrators in this office have their salaries paid as an expense of the land development program, and their sole function is to further land development. In at least one instance, ~~that~~ a Stanford official has used his position as a stepping stone to reaping profit from the development of ~~the~~ Stanford

money- 5

Tom Ford was director of land development at Stanford from 1960 to 1964, while basic decisions were made about the future use of the 21-acre site at the corner of Page Mill and El Camino. ~~Ex~~ After leaving Stanford, Ford set up a real estate brokerage firm and put together a plan for a ^{huge} financial center and convention complex on the site. His "package" was accepted by Stanford and ~~will be built by~~ the Dillingham Corporation.

The Business Office maintains the University's inertia in the direction of continued land development, without regard for the urgent problems of housing, traffic and ecology. The Business Office ~~manages~~ and trustees have not acted ^{with} ~~in~~ ^{views of the} total disregard of the campus community, however. Since 1951, land policy has been reviewed by a faculty committee on Land and Building Development. The committee had no student members until 1968, however, and until a reorganization last summer it was controlled by representatives of groups with a vested interest in the ~~the~~ land development program. The 14 faculty-staff members in 1968-69 included Alf Brandin, vice president for business affairs, Harry Sanders, director of planning, William Rambo, associate dean of the engineering school and an early investor ~~stockholder~~ in ~~an~~ industrial park firms, A.T. Waterman, electrical engineering professor, J.B. Wells, civil engineering professor, G.M. Oxley, business school professor, and vice provost E.H. Brooks.

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