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# Money, Money, Money

BUDGETS AND FINANCIAL MATTERS never seem to be topics that stir the souls of new academic managers. However, understanding both the budgetary processes and the sources of institutional financial support will be essential for your success and that of your department or program. As a manager in higher education, one of your primary roles is to garner the resources needed to implement the ideas, programs, services, and needed classes and instruction required or desired by your students, your colleagues, and other constituent groups. And it is not enough to merely obtain money to support the unit. You also need to assure that those resources are spent in accordance with institutional guidelines as well as state and federal law. Remember that in order for goals and objectives to be reached, the needed human and fiscal resources must be in place, and that means mastering budgeting and financial issues.

## THE ROLE OF THE BUDGET MANAGER

The organization of each institution of higher education is unique. Some complex institutions have an elaborate organization with many program and administrative units. Other institutions are organized in a less complex fashion. No matter what the organization of the institution or the specific title of the unit budget manager (program manager, director, chair, or department head), the roles of the unit budget manager are very consistent.

First is the fiscal role of the unit budget manager, which will discussed throughout this volume. The financial success of the institution is highly dependent on unit budget managers' exercising sound fiduciary responsibility. That is not usually an easy task, for the pressures are many and the issues are complex. But unit budget managers are expected to follow institutional fiscal policies and solve problems before they become major concerns for the institution.

A second role, less recognized than the fiscal role of unit budget managers, is that of listening post for the institution. It is often unit budget managers who hear of issues and problems influencing employee morale or their ability to get work done. For example, a unit budget manger is often the first person to hear of or personally experience problems with a new purchasing system. If the unit budget manager just assumes that those individuals responsible for the installation and maintenance of the new purchasing system are aware of the problem, the system problem may never be addressed and the situation will not get any better. The wise unit budget manager conveys specific concerns to others within the institution who can address the issue and offers to partner with them in an improvement effort. To illustrate, the unit budget manager could provide specific examples of the problems she experiences or run a test purchase order on the system so the actual problem can be identified. The involvement is well worth the effort and reduces frustration for everyone involved.

A third function of the unit budget manager focuses on resource gathering through fund-raising. The unit budget manager helps those within the unit coordinate requests for external support with the development office or officer. In addition, they assist members of the unit in identifying possible funding sources for their idea or program. Finally, unit budget managers indirectly serve as friend-makers for the institution in their interactions with vendors and members of the public. One development officer noted, in casual conversation, that everyone in the institution has the potential to be a fundraiser, but they rarely recognize their role in that process.

A fourth role of the unit budget manager is designated problem solver for the unit when it comes to fiscal issues. It is the unit budget manger who must figure out how to approach a problem and gain an optimal solution for the unit. This requires development of a web of helping relationships within the institution. Understanding who to call under what circumstances is a prime role of the unit budget manager. It is clear that a unit budget manager deals with much more than money and balance sheets.

## DEFINITION OF TERMS

Throughout this volume a number of terms will be used interchangeably. The broadest definition possible has been developed for terms so that the volume can be useful to individuals in all types of institutions. In addition to the glossary provided at the end of the volume, the following definitions of terms will be helpful in understanding this volume.

### Unit Budget Manager or Academic Budget Manager

A unit budget manager is someone with administrative responsibility for a financial account or a number of financial accounts within the institution. For purposes of this volume, a unit budget manager could be a department chair with responsibility for accounts associated with a specific academic department, or a director with responsibility for a center or support unit. Finally, a unit budget manager could be a program director or principal investigator with responsibility for management of a grant or a discrete program unit. The unit budget manager may be assisted in his budget and fiscal management role by other staff members, but the ultimate fiduciary responsibility rests with the unit budget manager.

### Unit

A unit can be any administrative division of the institution including a small discrete program. For example, for purposes of this volume, a budget unit may be a small department, a specific program, a research grant, or a division of the institution. The principles of budget and fiscal management remain the same.

### Budget Office

In large and complex institutions, there may be a well-developed budget office with professional staff assigned to provide assistance to major budget units within the college or university. In smaller institutions, the resources are usually more restricted, with a small central staff providing support, and reliance is on the expertise of a few people. Whatever the organization, when the term *central budget office* is used in this volume, it refers to the entity that oversees all budget or fiscal operations within the institution.

For other terms please check the glossary of terms at the end of this volume.

## THE BIG PICTURE

As an effective academic budget manager you will seek to understand the larger fiscal context of higher education and the influence that context may have on institutional budget priorities and ultimately unit budgets. You must also be able to identify the sources of the funds used to support your unit activities and the limitations that may be placed on budget decisions because of the fund source. Basic understanding of these broad fiscal issues helps you as academic budget manager ask intelligent questions, potentially identify new sources of support for unit objectives, and strengthen your ability to communicate unit needs to fiscal decision makers both within and without the institution.

Imagine that you are the president of Alpha University and are dealing with issues of budget. A combination of factors has resulted in a net revenue increase for the institution of approximately $10 million for the next fiscal year. The revenue increase is the result of an increase in tuition and fees, modest enrollment growth at the undergraduate level, new gifts to support the establishment of three endowed chairs resulting in additional funds being available for redistribution, and a modest growth in research grants resulting in an increase in indirect cost reimbursement. The issue for you and the institutional budget committee is to decide how best to invest these new resources within the institution.

Increases in budget requests for the next fiscal year from academic and support units total $14 million. Although it is clear that all such requests cannot be funded, the question of how to allocate the new revenue is much more complex than simply denying funding to $4 million of requests. Issues that influence the allocation of the $10 million in additional revenue include:

A governing board policy requires that any increase in tuition and fees results in a proportional increase in the student financial aid budget (estimated cost: $1 million).

The faculty and staff expect at least a 3.5 percent salary increment for the next fiscal year (estimated cost: $1.6 million).

Health insurance premiums have skyrocketed, resulting in a premium increase for the next fiscal year (estimated cost: $650,000 for the institutional share).

After a Title IX complaint an agreed-upon plan with the Office of Civil Rights involves an increase in support for women's intercollegiate athletics (estimate cost: $350,000 next fiscal year and an additional $200,000 per year for the next five years).

New faculty must be hired for the next academic year to convert the increased demand for required core courses in the liberal arts college. Students have been unable to get into needed courses in a timely manner (estimated cost: $500,000 increase in the base budget).

An unanticipated increase in postal rates results in an increase in the base budget for next year (estimate cost: $50,000).

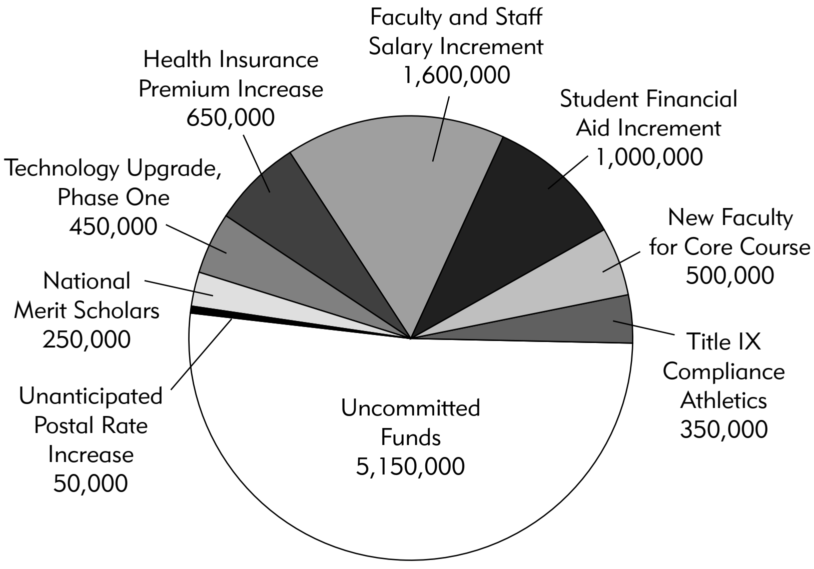
The first phase of a five-year upgrade of the network and supporting software must begin (estimated cost $500,000.).

The governing board would like to attract more National Merit Scholars and has strongly suggested that money be designated in the institutional base budget for that purpose (estimated cost: $250,000 in the first year).

As Figure 1.1 demonstrates, the actual amount of money available to fund increased budget requests from academic and support units has been drastically reduced due to the list of mandated cost increases. Less than 50 percent of the original $10 million in new revenue is available to support budget requests from academic and support units. In addition, the president has several new initiatives that she believes are critical in order to move the institution forward. None of the priorities of the president are included in the $14 million of budget increase requests already under consideration. If the presidential priorities were to be added, another $5 million of requests would be on the table for consideration. It is clear with only slightly over $5 million available and requests totaling $19 million dollars that many worthy programs and activities will not receive budget support in the next fiscal year. Such dilemmas are not rare in higher education. The wise budget manager must understand these kinds of realities and prepare budget requests insofar as possible to meet institutional goals.

The next section presents an overview of the fiscal context of higher education and a review of the multiple sources of financial support for the higher education enterprise. The similarities and differences between public and private institutions with regard to fiscal matters are also discussed. Finally, the chapter concludes with a brief discussion about why all of this is important to a new budget manager within the educational enterprise.

**Figure 1.1. Alpha University's Distribution of New Revenue of $10 Million for the Next Fiscal Year.**



# THE FISCAL CONTEXT OF HIGHER EDUCATION

Higher education institutions, whether public or private, are experiencing great changes related to identifying and capturing resources to support the enterprise. The broader fiscal context of higher education sets very real constraints on what can and what cannot be accomplished in any institution of higher education. These broader fiscal issues include growing competition for funds in both the public and private sector, concerns about the rising costs of higher education, increased regulations including a rise in unfunded federal and state mandates, increased competition for a skilled workforce from business and industry, the growth of technology, and the rising costs for the purchase of goods and services.

## Increased Competition for Funds

Competition for funds has increased in recent years and is likely to continue to do so in the future. In most states, state government has become a growth industry; the number and variety of programs funded out of tax support grows each year. In addition, some state programs, such as health care, have expanded in order to meet the needs of an aging population. Other programs, such as prisons and public safety, have grown because of an increase in volume and public demands. Streets and highways need to be rebuilt or expanded. Recreational use of forest preserves, beaches, parks, and other state land has grown. The list of state needs goes on and on. Suffice it to say that higher education is but one of many programs seeking support from a limited amount of money at the state level (Schuh, 2000). The result has been less and less direct support for public institutions of higher education and increased expectations that such institutions develop new ways to get the resources necessary to operate the enterprise. In fact, some public institutions have changed their rhetoric and describe their institution as state "related" rather than state "supported" because the contribution of the state to the institution has diminished so much. The reduction in available state funding also influences private higher education in both direct and indirect ways. For example, state financial support to individual students can be used by the student at both public and private institutions. If funding for such programs is reduced or remains steady, more of the burden for individual student aid is shifted to the institution from the state.

During the last decade, many public institutions have joined private institutions in seeking support from foundations, alumni, parents, friends, businesses, and industry. Billion-dollar campaigns are no longer unusual. Concurrently, other charitable institutions have increased their quest for funding support. Competition for private funds is fierce and likely to remain so in the near future. Fund-raising has become a major enterprise for many institutions, and annual fund-raising is becoming essential to institutional success.

In addition, both public and private institutions have expanded their services to include specialized grants and contracts with business, industry, and government. Indirect cost recovery from such grants and contracts has become a major revenue source for many institutions. Competition is great in this domain and is likely to be so in the future.

## Cost Concerns

The cost of attendance at institutions of higher education, both public and private, is becoming a growing societal concern. Parents, legislators, alumni, and friends are all expressing reservations about the rising costs of tuition, fees, room, and board. Development of new student fees as a method to garner resources had been popular with many institutions in the past. But with cost issues of concern, new fees are instituted much less frequently than in the previous decade.

The issues related to cost of attendance are also directly linked to financial aid for students. Access and choice have been central to the mission of many public and private institutions. In order to support an economically diverse student body, the federal and state governments and institutions have invested heavily in financial aid to students. The grants and loans from federal and state governments do not meet the full cost of attendance at most institutions and must be supplemented by institutional funds or endowment income to support additional financial aid. As the cost of attendance rises, so do financial aid budgets, and the resources of the institution are stretched. The problem is compounded in institutions with graduate education programs. In such environments, the cost of instruction and research is high and the payment by students for such educational access is relatively low. Cost and financial aid issues will be part of the fiscal future of higher education in the United States for years to come.

## Increased Regulations and Unfunded Mandates

Within the last fifty years, American higher education has experienced a great increase in regulation from both the state and federal governments. Many of these statutory requirements or agency regulations require additional expense to achieve compliance. However, funding for compliance at either the state or federal level has not been forthcoming. To illustrate, the Animal Welfare Act (AWA) (70 U.S.C. sec. 2131 et. seq.) has a number of specific regulations regarding the care of animals used in research; if the institution is not in compliance with the regulations, research funding may be withheld. The Occupational Safety and Health Act of 1970 (OSHA) (29 U.S.C. sec. 651 et. seq.) provides regulations governing everything from disposal of contaminated materials to the configuration of work stations. The Family Education Rights and Privacy Act (FERPA or the Buckley Amendment) (34 CFR 99) regulates directory information and provides privacy protection for students. The Human Subjects Research Act (45 CFR 46) requires disclosure and monitoring of human subjects in research studies. The Student Right-to-Know and Campus Security Act (20 U.S.C. 1092[f]) requires notification of crime statistics and other data on an annual basis. These statutes are just examples of the maze of federal and state regulations that must be complied with at any college or university. All have financial implications and require human and financial resources to comply. The regulatory context is one that must be constantly monitored to reduce both the fiscal and human impact of such regulations on institutional operations.

## Competition for Faculty and Staff

Higher education is actively competing with business and industry for both skilled and unskilled workers. That has not always been the case, but in a robust economy wages and benefits in business and industry can far outstrip those provided at both public and private higher education institutions. The problem of attracting and retaining staff members has become even more difficult with the advent of technology. Both technical managers and technical support staff are in high demand in all sectors of the economy. And the problem of attracting and retaining personnel is not limited to staff ranks. New doctoral candidates and young faculty members are also being heavily recruited by business and industry.

While institutions try to attract and retain new faculty and staff, they must assure that those individuals who are currently a part of the work force are not disadvantaged by any scheme to attract new hires. Failure to develop a reasonable approach to unacceptable rates of turnover will result in increased cost and frustration. New compensation schemes are being developed at some institutions to address the problem, as well as new and more attractive benefits packages. Whatever the approach, this issue is likely to have huge financial implications for institutions.

## Competition for Students

Competition for students is growing, particularly with regard to minority student enrollments. Some institutions are absolutely dependent on enrollment to cover the cost of operations for the fiscal year. The loss of even twenty students can mean the difference, at those institutions, between institutional fiscal failure and success. For other institutions, the budget is not as enrollment driven, but issues of access and choice, referenced earlier, remain at the forefront of fiscal decisions. Competition for students results in higher financial aid budgets and other tuition discounting schemes such as a lower rate for a second child from the same family. But financial aid is often not enough to attract the students desired by institutions, and money is being focused on amenities that make the institution more inviting to prospective students. Finally, the cost of the actual recruitment process continues to grow as each institution attempts to get a specific message out to students and their parents.

In addition to recruitment efforts for traditionally aged students, many institutions have sought new markets for their educational programs by embracing adult and returning students. Creation of education and support programs for nontraditional students is not an inexpensive under-taking. With new markets come new demands for services. It is a volatile, changing, and risky environment, and the costs associated with recruitment and retention of students will grow each year.

## Cost of Technology

Technology is both a blessing and a curse for institutions of higher education. It is a blessing because it provides new tools for communication and research. Communication is more rapid and access to information has grown geometrically. It is a curse for a number of reasons, but for the purposes of this discussion the focus is on the fiscal implications of the use of technology on campuses. In a rapidly evolving environment, technological innovations are installed at great cost and seem to become outdated before the installation is even complete. The costs of networking a campus and maintaining the technology infrastructure are enormous, as are the costs of replacing personal computers to keep up with the latest changes in hardware and software.

In addition, technology has brought with it the power to change the ways an institution does business. Many colleges and universities are in the process of developing new student information systems, as well as systems to deal with accounting, purchasing, and human resource management. Each of these new systems has a price tag for both initial installation and then maintenance of the system. For many years, there was hope that positions could be eliminated as a result of technology; that has not proven to be the case. There are many good reasons for installing technological innovations on a college campus. Saving money is not one of them.

## Rising Cost of Goods and Services

Higher education has certainly not been immune from inflation. The cost for goods and services purchased by institutions increases each year. At a large institution, minute increases in the cost of utilities, for example, can have great budget implications because of the volume needed to meet institutional needs. Costs in all sectors of goods and services have risen and must be paid by the institution. Only an examination of the way business is done within the institution will stop the cost for goods and services from spiraling out of control. For example, questions must be asked whether there are energy-saving measures that can be instituted that pay for themselves within two years. Are there less expensive ways to communicate with parents and students? Creative solutions are needed for these and other questions (see Exhibit 1.1).

## WHERE DOES THE MONEY COME FROM?

A number of fund sources support both public and private (independent) institutions of higher education. The emphasis and dependence on each source of financial support will vary between institutions even of the same type. However, the greatest variance in sources of support will occur between public and private institutions, although some observers say that those distinctions are becoming more blurred in the changing financial environment of higher education.

**Exhibit 1.1. Questions to Consider Regarding the Budget Implications for Your Unit.**

1. What constraints from the larger environment will influence your daily work as an academic budget manager?
2. What are the potential opportunities for your unit because of events and decisions within the larger environment?
3. Does your unit have any budgetary responsibility for the financial support of graduate and undergraduate students? If so, how much money is involved?
4. Is your unit responsible for responding to unfunded federal and state mandates? If so, what are the budget implications for this fiscal year and beyond?
5. Is your unit finding it difficult to fill support and technical staff positions? If so, why?
6. Does your unit hold fiscal responsibility for installation, upgrades, and replacement of computer equipment and software? Is the budget sufficient for the needs?

## State Appropriated Funds

Funds from the state government are the primary source of income for most public colleges and universities. At a community college such income may also be supplemented by direct support from the county or municipality where the institution is located.

The process involved in allocating state funds to an institution of higher education will differ in each state. Some states use formula funding based on the number of full-time, part-time, graduate, and undergraduate students, with different funding for each student category. In other states, formula funding is based on a rolling average of credit hours produced over the last five years by the institution. In still other states, legislative review of the institutional budget is extensive and may involve line item review of all budget items. Some states use a combination of formula funding (overseen by the higher education agency within the state) and extensive legislative review of requests for new programs. This latter approach permits institutions to bring new projects and programs to the attention of the legislature without jeopardizing the basic funding base of the institution. Finally, a limited number of institutions, such as the University of Michigan, are constitutionally autonomous (not subject to regulation by other state agencies) and thus are treated in the legislative budget process as is any other state agency.

The role of state appropriations for private institution is much more narrow than within the public sector. State appropriations for private institutions are usually limited to specific programs that meet state priorities and interests. This might include support for medical education, teacher education, or programs that help students prepare to work with persons with disabilities. In addition, state support for private institutions may come in the form of capital budget support (see section to follow) or direct financial aid to students.

## Tuition

Undergraduate tuition is the engine that drives much of higher education in the private sector and is becoming (as noted earlier) more important in the public sector. The states of Virginia and Vermont provide excellent examples of this trend. In those states, the flagship institutions do not rely on state appropriations as the main source of support for the operating budget.

The cost of tuition can be calculated on the basis of each credit hour taken or on a full-time enrollment basis. In this age of increased consumerism, many institutions are abandoning the practice of charging for each credit hour to avoid student and parental complaints such as "I spent X number of dollars on that course and did not learn anything, and I want a refund."

In private institutions, tuition is a critical component of the institutional budget (see Figure 1.2 on page 24). In smaller or struggling institutions, enrollment (and thus tuition dollars) can be the difference between meeting the revenue needed for the operating budget of the institution or failing to do so.

Public institutions often have statutory restrictions regarding the amount of tuition that may be charged to in-state residents. The rationale for such restrictions is that the state already allocates money to the institution and the citizens of the state should not have to pay an exorbitant amount in order to attend "their" state college or university. Usually there are no such restrictions on out-of-state tuition, and the institution or system may be free to charge with appropriate approvals whatever the traffic will bear. Artificial restrictions on the amount of in-state tuition that can be charged create unique fiscal challenges for state institutions, and many are seeking legislative relief in order to more adequately fund the enterprise.

Graduate tuition, whether it is paid by the student, from a grant, or through a tuition waiver program linked to an assistantship, does not begin to pay the cost for graduate education. Exceptions to this rule include specialized master's degree programs offered on a part-time basis for full-tuition paying students. Doctoral programs usually are costly to the institution and are only rarely offset by direct tuition payments or grant support. Professional school programs also provide similar budgetary challenges for the institution. Graduate programs are certainly essential in a research or comprehensive institution for their ability to attract top-flight faculty and students and their role in expanding knowledge. However, in a fiscal sense, they are not moneymakers or contributors to the funding stream for any institution.

## Mandatory Student Fees

At public institutions and increasingly at private colleges and universities, student fees have been earmarked as one means to obtain revenue without raising tuition. In the highly politicized context for higher education, imposition of student fees is seen as a way to avoid confrontations on the issue of tuition. Such fees are usually charged on a term basis and are assessed from, at least, all undergraduate students. Examples include building use fees, technology fees, bond revenue fees, laboratory fees, breakage fees, recreation fees, student services fees, and student activity fees. Such fees are usually dedicated as support for a specific building or programs and must be reserved for those uses. To illustrate, a steady stream of income from a mandatory student fee is the fiscal foundation for selling bonds for many student recreation buildings.

The process of allocating mandatory student fees varies from institution to institution. In some institutions, mandatory fees are routinely allocated to support units as part of the general budget process. In others, a committee with student representation allocates the fees for use by departments and programs. In many cases, mandatory student activity fees are solely allocated by student government structures under the general supervision of some administrative agency.

Private institutions are much less likely to adopt the strategy of mandatory student fees as a means to generate income. Many of the programs and services at public institutions that are supported by such general student fees are funded from tuition income in private institutions. This is particularly true of programs and services that serve all students such as student centers and recreation programs. For private institutions the public relations fallout of adding general student fees to already high tuition bills is not worth the effort.

## Special Student Fees

There are two types of special student fees that are used as a means of budget support: one-time fees and fees for services. Both types of special use student fees are present in both public and private institutions.

One-time fees are assessed for participation in a specific program or activity. Examples of one-time fees include study abroad fees, loan processing fees, and graduation fees. The income from the fee helps to offset the cost of the specific program without causing a drain on other institutional resources.

Fees for services are a growing phenomenon in higher education and are usually linked to psychological services, health care, or the ability of students to attend popular intercollegiate athletic events. To illustrate, in many counseling centers students seeking help are provided a limited number of sessions at no cost but must provide some form of co-payment to continue therapy or group sessions. There is great debate over whether fees should be charged for services, as often those who need the services most are least likely to be able to pay. While the debate continues, the fee-for-services approach to meeting revenue needs continues to expand. Athletic fees are also optional at some institutions and permit students to gain admission to popular athletic contests without charge or at a reduced charge.

### Endowment Income

Income from the institutional endowment is a major source of support in private institutions. Overall fiduciary responsibility for managing the endowment rests with the institutional governing board, although day-by-day management issues are the responsibility of institutional staff. The income from the investment of the endowment is used to support the yearly operating budget of the institution. Endowment income can either be part of the central budget appropriation to the unit or in some cases departments or units have endowment funds directly designated to their unit.

Prudent institutions do not use all of the income generated by investing the endowment for current operations. Instead, rules are established, by the governing board, regarding the percentage of the endowment income that may be spent on operations for any fiscal year. Such spending limits create a more stable revenue stream for the institution, as it is not buffeted as much by the winds of change in the economy. Most important, spending limits aid in building the corpus of the endowment to assure funding for future generations of scholars and students.

How large should an endowment be in order to assure the fiscal health of the private institution? As each institution is unique, that question will depend on a number of factors, including the dependence of the institution on the endowment for annual operating funds. One measure of the strength of the endowment is the amount of money in the endowment for each full-time student.

Currently, most major public institutions have much more modest endowments than their private counterparts. That is likely to change in the future as state appropriated support for public higher education diminishes and alternative sources of revenue are needed. Whereas in private institutions the endowment is under the control of the governing board, that is not necessarily the case in public institutions. At some public institutions, independent foundations have been established to raise money and invest it for the good of the institution. Any foundation must meet the requirements of state statutes and regulations in the state where the foundation is located. The organization and control for such independent foundations will vary. For example, some have institutional representatives on their governing board, some do not. Some are absolutely independent, and some receive office space and clerical and accounting support from the institution. Each situation is unique and often is dependent on the history and tradition of the institution. If that is the case, the management challenges for the institutional chief executive are enormous, for the CEO does not control a critical source of funds to support the enterprise.

Many institutions, both public and private, have very limited endowment funds and some do not have any such support. When there is not substantial endowment support, the institution is in a state of constant uncertainty regarding the fiscal future, and planning and institutional growth are thwarted.

## Fund-Raising

Identifying and obtaining private financial support from alumni, friends, parents, business, industry, and foundations is essential to the financial health of private institutions and is becoming increasingly important in public institutions. There are two types of fund-raising: annual giving and long-term campaigns for programs and projects.

### Annual Giving

For most private institutions, annual giving is a critical revenue source for the operating budget of the institution. Revenue goals are set for the development of the institution based on past performance with increments added on for inflation. Donors designate some annual gifts for specific units or programs. Such gifts are usually not incremental to the unit but provide a welcome means of relief for the central budget of the institution. When a gift is not designated it becomes part of the general revenue stream for the institution. Establishment of a robust annual giving program is essential to the financial health of most private institutions of higher education.

### Campaigns

To meet the needs for new facilities and programs many institutions conduct multiyear campaigns. In recent years such campaigns have evidenced a greater emphasis on program support as opposed to “bricks and mortar.” Included in such initiatives are undergraduate scholarship programs, endowed chairs and professorships, and specific endowments to support specialized programs such as centers for the study of humanities.

Still other institutions raise funds for specific programs and needs as opposed to a comprehensive campaign. This precise form of fund-raising relies on in-depth knowledge of donor interests and compatibility of those interests with institutional needs.

Whatever the approach to fund-raising adopted by an institution, it is clear that fund-raising on both an annual and long-term basis is becoming more important at both public and private institutions. It is tempting to accept any and all gifts offered to the institution, but astute managers must examine whether the gift will be additive or will in the long run cost the institution more than the initial gift. There is an old adage in fund-raising: “beware of the gift that eats.”

Finally, coordination of fund-raising activities is essential, for it is not in the best interests of the institution for potential donors to be approached by several institutional units at the same time. It is essential that someone be in charge of what requests are being made in the name of the institution and assure that small requests do not forgo potential larger donations.

## Grants and Contracts

Research is supported in large part through grants from the federal government, state agencies, business and industry, and private foundations.

In addition to providing direct support in terms of salaries and operating costs of the specific research activity, grants also are required to recapture some of the indirect costs of the institution related to the grant. Indirect costs include, for example, services provided by the institution such as accounting and purchasing, as well as space renovation, maintenance and utilities, and administration. The federal government indirect cost rate is a set amount of the total grant request. It is negotiated between the federal government and the institution and applies to all federal research grants. Indirect costs are also assessed on grants from other sources, although those rates may be different from the rate established by the federal government. Charges for indirect costs do not accrue in the unit budget but are considered part of the general revenue stream in support of the institution.

Contracts are time-limited arrangements with business, industry, or government whereby the institution provides a direct service in return for payment. Examples of contracts include providing training for a state agency, teaching an academic course for the employees of a specific company, or providing technical computer support to another entity. Such contracts usually include an overhead line that covers some of the same items as does the indirect cost rate noted earlier. The institution establishes the overhead rate for all such contracts, and the money is returned for general use by the institution. Most institutions have centralized approval of proposals for grants and contracts. Such centralization assures that appropriate agreement by authorized institutional personnel has been given for any fiscal support of the proposal from the institution. In addition calculations for indirect costs and salaries and benefits can be checked for accuracy. If the proposal receives funding, the centralized grants and contracts office supervises fund disbursement and supervises any reporting requirements for the grant or contract. A first step in developing any proposal for a grant or contract is contact with the office in charge of such activities.

## Auxiliary Services

Auxiliary services usually do not receive any institutional support and are expected to generate sufficient income to cover all operating expenses and long-term facility costs associated with the unit. Thus, they are deemed to be self-supporting. Although auxiliary services receive no institutional funds, they are governed by the same institutional rules regarding compensation, purchasing, and human resources. Each institution defines what programs and activities will be designated as auxiliary services. Examples of auxiliary services include student housing, food services, student unions, recreation programs, and, at times, intercollegiate athletics. Auxiliary enterprises must develop, as part of their budget strategies, fiscal support to maintain, renovate, and construct facilities. Long-term repair and renovation programs are generally funded through development of reserve funds either through transfers from the operating budget or deposit of excess income over expenses at the end of the fiscal year. Such reserve funds are dedicated for the specific purpose of facility construction, maintenance, or repair for the unit and usually cannot be used for other purposes.

In addition to meeting all expenses and long-term facility needs, an auxiliary enterprise is also expected to pay overhead to the institution to cover the costs of institutional services used by the auxiliary unit. This becomes part of the general revenue stream of the institution. Finally, if an auxiliary enterprise loses money through poor budget management or overly optimistic revenue-expense forecasting, the auxiliary is expected to cover the deficit from reserves or from the next year's operating budget.

## Special Programs

Such programs may be one-time events such as a department-sponsored seminar or conference where entrance or registration fees are charged or recurring programs such as sports camps or continuing education seminars. In either case, the program must be self-supporting unless specific institutional permission has been given to have expenses exceed income. Revenue is usually retained by the unit to offset expenses. The goal of the enterprise is to break even at the end of the year. Modest reserve funds may be established for such units in order to handle situations where projected income falls short of the budget. If this happens on a continuing basis or if expenses routinely exceed the budget, review of the pricing policies involved in the program or institutional review of the efficacy of the program may be in order. Before any plans are made or implemented for a special program, appropriate approval for the venture must be received.

## Contracted Institutional Services

In both public and private institutions, functions such as food service, bookstores, and custodial services are increasingly being outsourced to private enterprise. Through competitive bidding processes such contracts can become a source of funds to support both operations and capital expenditures such as facility repair, renovation, and new construction. Negotiation of those contracts may include yearly lump sum payments for capital expenses in addition to regular payments to the institution based on a percentage of gross sales.

The concept of contracted institutional services has been expanded on some campuses to include exclusive use contracts for soft drinks or other merchandise on campus. Under those contracts the entire institution adopts a certain brand of soft drink (or athletic equipment supplier, or vending machine operator, or telephone service, or food service management) and for that exclusive market the company makes lump sum payments each year to the institution in addition to a percentage of gross sales. Any contracts for institutional services should be reviewed by institutional legal counsel because the contract commits the institution to certain actions. In addition, the individual signing the contract on behalf of the institution must have clear authority to do so. Finally, supervision of the contract to assure vendor compliance must occur.

## Church Support

Church-supported or church-related private institutions of higher education also rely on denominational financial support. Such support usually carries with it the requirement for representation on the governing board of the institution and assurances that the values of the religious group will be supported through institutional policies and programs. In many church-affiliated institutions, the amount of direct denominational support as a proportion of the institutional budget has diminished in recent years.

## State Capital Budgets

In some states, capital development funds for new facilities or facility renovation at public institutions are handled through a separate funding process. Capital support for facilities can be requested through a process that is in addition to the regular appropriation process. Usually those funds are limited, and only facilities that meet the highest priorities of the state higher education coordinating board are funded. At times, private institutions may also be able to access state capital funds if the facility or the program meets a pressing state need.

### Federal Capital Support

If a new building is consistent with a federal need and if there is support for the building in the federal appropriations process, then federal dollars may also be available to institutions for capital construction projects. These appropriations are very important for construction of complicated and expensive research and medical facilities.

### Other Sources of Income

There are a number of miscellaneous sources of income used to support programs and facilities within higher education. Facility rental fees, particularly for large concert halls and performance venues, help offset operational costs for those facilities. The privilege of parking requires parking permits that all eligible community members (including faculty, staff, and students) must purchase. Rental fees for specialized pieces of equipment such as stadium field coverings are but one example of the creative ways unit budget managers generate income in support of their program. Although individually such sources of support seem to be small in relationship to the institutional budget, in the aggregate such income sources are critical to the financial health of the institution's various units.

## PUBLIC VERSUS PRIVATE FINANCIAL ISSUES

Whereas in the past the funding for higher education differed markedly between public and private institutions, those differences are becoming increasingly blurred. Figure 1.2 compares and contrasts the sources of funds for all public and all private not-for–profit institutions across the country.

Note that the percentage assigned to the various sources of revenue will vary considerably between institutions of the same type. Well-endowed institutions, for example, have a much larger part of their operating budget covered by interest income from the endowment. As demands for the use of state funds continue to grow, public institutions have adopted many of the strategies of private institutions in obtaining funds to support educational endeavors. Both public and private institutions are seeking outside funding to support institutional goals in ever greater amounts. What differs is the degree of control on matters of finance that is exercised beyond the campus.

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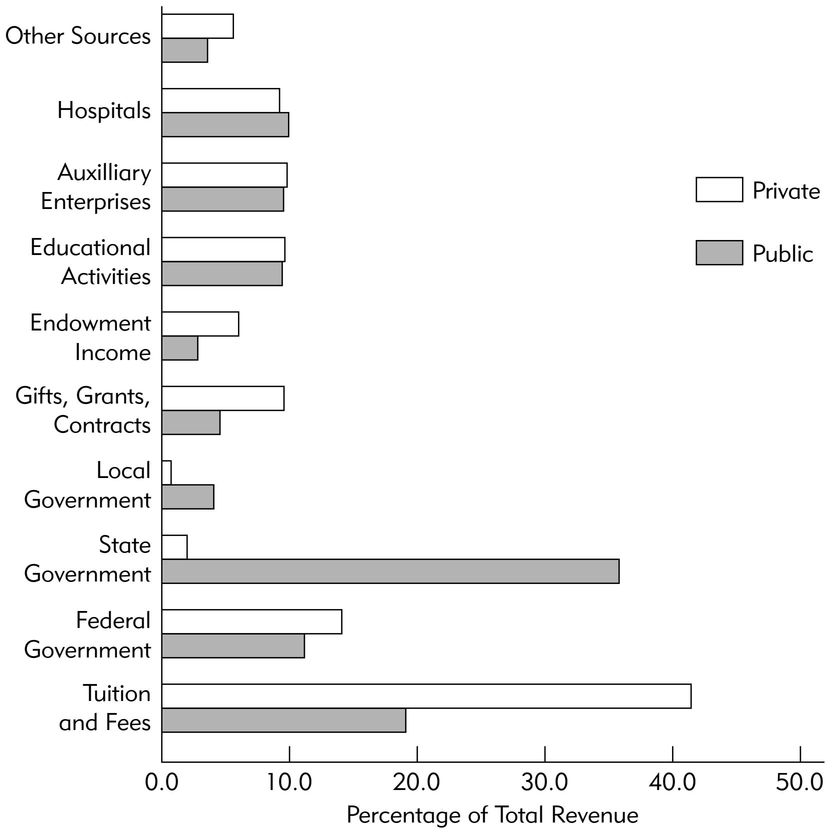
**Exhibit 1.2. Questions to Consider Regarding Sources of Support for Your Unit.**

1. What sources of funds support the operations of your budget unit?
2. Does any of the financial support for your unit come from mandatory student fees? If so:
   a. Are there restrictions on the use of the money?
   b. Does the process of requesting funds differ from the regular institutional budget process? In what ways?
   c. What approvals are necessary to reallocate student fee money if it has already been approved for another purpose?
3. Is the budget for your unit supported by any special student fees or fees for services? If so, how are these fees determined?
4. What responsibility and opportunities, if any, exist for fund-raising by your unit?
5. Are there grants or contracts being administered through your unit? If so, what responsibilities do you have for fiscal management of the grant or contract?
6. If your unit is an auxiliary enterprise, what long-term plans are in place for the repair and renovation of physical facilities? How will they be funded?
7. Is your unit sponsoring any special programs in this fiscal year? What are the financial expectations for such ventures?
8. Are you as a budget manager, providing oversight for any contracted institutional services? If so, what are your responsibilities under the contract?

**Figure 1.2. Percentage Comparison of Sources of Income for All Public and Private Institutions in the United States.**[1]




Adapted from the data of the National Center for Educational Statistics (1997) [http://www.nces.ed.gov]

1. Total revenues do not sum to 100 percent due to rounding.

## Control and Approvals

In private institutions, financial policies, investment strategies and institutional policies are controlled either through the governing board or through other campus-based governance and administrative bodies. This approach provides greater degrees of freedom in using resources to meet unexpected needs or problems. For example, in the last two decades, meeting the rising cost of energy required reallocation at many private institutions, but permission for that reallocation did not have to be sought beyond the campus. For public institutions often permission must be sought from the system, the state coordinating board or other oversight body, or the legislature itself to change the uses of legislative appropriations.

## Policies

Fiscal policies at private institutions are likely to be less cumbersome, permitting transfers of funds for reasonable purposes without many approvals and other bureaucratic barriers. The budget manager is, however, held accountable for making sure that at the end of the fiscal year there is no deficit.

In public institutions, usually the institutional budget office must grant permission for line item transfers over a certain dollar amount. Sometimes for certain categories of expenditures the governing board or the supervising state higher education agency must approve such transfers.

## Human Resource Issues

In both types of institutions, there is concern for growth in the number of positions in the institution. Adding new positions in public universities is usually more difficult than in the private sector, although in both arenas the budget manager must account for both direct and indirect costs associated with such positions, and the funds must be available to pay for them.

Compensation for faculty and staff are major issues in both public and private institutions. The growth of technology in particular has made persons with technical backgrounds highly sought after in the marketplace. Higher education, in both sectors, has had to develop new compensation guidelines to keep and attract technical staff, and traditional compensation models simply do not work. The issue of adequate compensation for technical and support staff is one that is common to both public and private institutions.

Unions are present at both public and private institutions and create special human resource issues, including work rules and compensation. A union environment creates a special case for handling issues of employee discipline, work loads, and reward structures.

Both types of institutions also must comply with state and federal regulations and laws relating to issues of equal opportunity, disabilities, sexual harassment, worker's compensation, civil rights, and health and safety. Budget managers must be aware of the legal, budgetary, and institutional requirements regarding personnel matters. For example, the institution usually has pay scales for certain types of positions, and those scales cannot be ignored in making new hires.

## Purchasing

Public and private institutions have regulations regarding purchasing goods and services. For many public institutions, purchasing of goods and services is complicated by state regulations and required state contracts for certain items. When a state contract is in place for a certain product, then a manager must show cause to not purchase from that source. State blanket contracts add a degree of complexity to any purchase. State institutions may also be subject to requirements that the lowest bidder gets the contract if they meet the minimum requirements for the service or goods. Such requirements can cause a number of difficulties for the academic manager.

Usually at private institutions, purchasing requirements are less rigid and are not complicated by state contracts. In fact, purchasing for some items may be highly decentralized in a private institution, with the unit taking responsibility for seeking bids and making the decision on a contract. Whereas on the surface such freedom can be very attractive, it also requires that each academic manager exercise due diligence in managing the resources of the institution under their control.(See Chapter Four for further discussion on the pitfalls of financial management.)

## Audit Requirements

Audit requirements exist in both private and public institutions. An external audit provides an independent review of the decisions made by fiscal managers. Both financial and management reports are issued, and the budget manager and other administrative officials review the reports and agree to needed changes in unit policies and procedures to comply with the audit findings. A regular follow-up is then conducted to make sure the recommended changes have been made.

In some institutions, there is an internal audit office that regularly conducts audits of all departments of the institution. If a manager is lucky enough to be in such an institution, use of the internal audit office can strengthen budgetary and procedural oversight within the unit. As a new manager, it is a good practice to ask the internal audit office to conduct an audit of the unit to identify problems or weaknesses in financial and budgetary procedures.

In other institutions, audits are scheduled and performed by an outside firm. Public institutions have the added complication of audits from the state level. A negative audit finding by the state agency can be a source of both institutional embarrassment and problems.

## WHY DOES ALL THIS MATTER?

Understanding the sources of funds for support of institutional programs and services is a first step in developing a sound fiscal strategy as a manager. Each source of funds provides unique opportunities and constraints on the budget manager. Understanding the strength and limitations of fund sources helps the manager plan more effectively and make more realistic budget requests. For example, if student fee income is legally dedicated only to the construction and maintenance of a specific building, then it is naïve to ask for some of that income to be diverted to ongoing operations.

In addition, the budget requests for one unit may have implications for another. To illustrate, the budget manager of the learning disabilities clinic on campus sees a quick solution to the need for more money to operate the clinic: charge students for the screening tests that up to this time were offered without charge. This approach to solving a budget dilemma has ramifications far beyond the clinic. A fee-for-services approach might, for example, influence the financial aid budget or the athletic budget, or it might have legal implications for the institution. When it comes to money, unilateral decisions cannot be made by any part of the institution without unexpected ramifications.

It is true that many similarities exist between the fiscal realities faced by private and public institutions; there are also differences in the development of policies and programs. Understanding those differences and the unique policies of your institutional type will help you as budget manager be more effective. For example, in most public institutions it is important to control the number of positions within the institution. Unbridled growth of the workforce is neither desired nor permitted. If you are in such an institution, then your budget request for support of a new position will need detailed justification even if you have the resources within your budget. You may have the money but may not have the authority to create a new position line. If, however, a well-endowed private institution may pay more attention to control of the bottom line than the addition of positions, then your rationale for the new position must be couched in terms of how the unit will stay within the approved budget even with the addition of a position. There are many more such examples. The essential point is that budget managers understand the important funding priorities and the procedures to support them in their institution.

Astute budget managers understand the sources of funds supporting the institution, their units, and the limitations on use of those funds. Such knowledge aids budget managers in developing realistic budgets and requests for additional budget support.

## REFERENCE

Schuh, J. "Fiscal Pressures on Higher Education and Student Affairs." In M. J. Barr and Mary K. Desler (eds.), *The Handbook of Student Affairs Administration.* San Francisco: Jossey-Bass, 2000.