

University Budgets: A Guide for the Perplexed

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The *Reno Gazette Journal* published a story last month on a rise in donations to the University of Nevada, Reno, and some readers wondered whether this could help offset the reduction in state funding that the Governor has proposed. In justifying his proposed cuts to higher education, the Governor explained that the university system had other revenues besides the state's general fund. Can other revenues be used to replace state funding for the university?

As a public institution, the university's budgets are public information, and these are available online at <http://www.unr.edu/vpaf/pba/budget/>. However, just because this information is easy to find does not mean it is easy to understand. This is because state legislatures use the budget to control the activities of the university, to ensure that monies are spent as the state intends. In this report, we will try to provide an introduction to the university's many different budgets, so the answers to these questions can be better understood. In addition to defining the eight areas of university budget responsibility, we explain the difference between operating budgets and self-supporting budgets, research and grants, student tuition and fees, and the capital improvement budget. We hope that this explanation will help readers understand whether the university is able to use other sources of revenue to cover instructional costs.

Defining the University's Budgets:

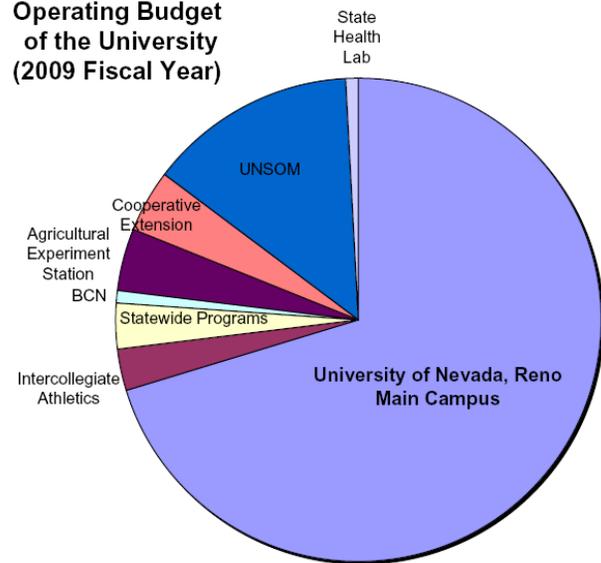
The Legislature gives our university the responsibility for administering eight different budget areas. In addition to the main campus operations of the university, the president administers separate budgets for the University of Nevada School of Medicine (UNSOM), Intercollegiate Athletics, the University of Nevada Cooperative Extension program, the Agricultural Experiment Station, the State Health Laboratory (SHL), Business Center North (BCN), and Statewide Programs, which includes the Nevada Bureau of Mines & Geology, the Seismology Lab, Extended Studies, the Small Business Development Center, and other programs providing statewide outreach. Each of these budget areas has a state-funded operations budget, and most have one or more self-supporting budgets, as we will explain below.

State agencies like the university operate on a fiscal year from July 1 to June 30, and the Legislature sets the budget two years at a time based largely on its projected revenues. While the Board of Regents has an oversight responsibility for the university, it does not have taxation authority and must rely on the Legislature to appropriate revenues and authorize expenditures. Any unspent revenue from state-funded budgets cannot be banked for future use, but must instead be returned to the state.

Operating Budgets:

For the 2009 fiscal year, which was set by the 2007 Legislature and started on July 1, 2008, the eight operating budgets for the University of Nevada, Reno totaled approximately \$279 million. Of this, the operating budget for the main campus was \$197 million, or 70% of the total. The School of Medicine accounted for 14% of the total, and all other operating budgets together accounted for 16% of the total. Intercollegiate Athletics received \$7 million in state appropriations, \$2 million of which went to pay for athletic scholarships.

Operating Budget of the University (2009 Fiscal Year)

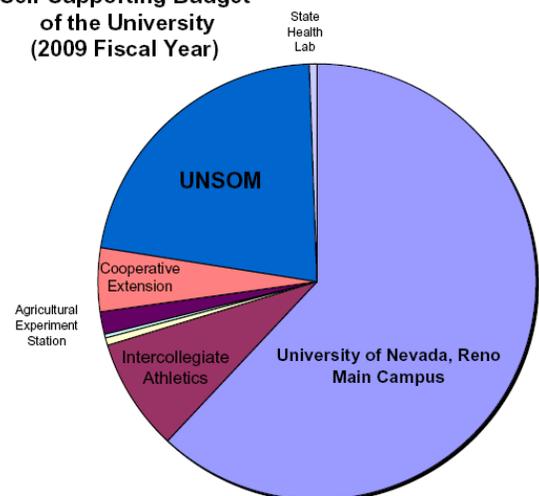


For the main campus operating budget of \$197 million, 46% went for to pay for instruction, mostly for professor salaries, 21% went to pay for utilities and other costs of operations and maintenance, and 32% went to pay for everything else, including the salaries of administrators and their staff, student services, information technology, research administration, the university police, and scholarships. The majority of the state-appropriated operating budget is set by the Legislature using a formula-driven approach. Once the total expenditure is determined, the state estimates the amount it expects the university to earn from other sources. The remaining amount necessary to fund the authorized expenditures is appropriated from the state general fund. For the main campus, these other revenue sources include student registration fees and out-of-state tuition (22% of the operating budget) and some investment income and miscellaneous revenues (1%). Thus, the official state allocation made up 73% of the main campus budget in the 2009 fiscal year, and 79% of the total for the eight different operating budgets.

Self-Supporting Budgets:

The second category of university revenue, the self-supporting budgets, is under university administration and must be approved by the Board of Regents, but it does not depend on state appropriations. On the main campus, self-supporting units include the residence halls, food services, parking services, and the student health center, and these units charge fees for services provided.

Self-Supporting Budget of the University (2009 Fiscal Year)



For the 2009 fiscal year, self-supporting budgets totaled \$202 million in the eight areas, or roughly two-fifths of the combined budget. About a fifth of this, \$35 million,

was through student fees, another fifth was from gifts and investment income, and almost a third was from sales and services. Intercollegiate Athletics brought in \$17 million through its self-supporting budget, or 70% of its total revenue, a share which compares rather well to other universities. The School of Medicine also received more revenue from its self-supporting budget than through its operating budget. Indirect facilities & administration (F&A) cost recovery accounts from grants and contracts are also considered part of the self-supporting budget, as we will explain in the next section.

It is important to understand that revenues from these self-supporting budgets cannot easily be directed to support other activities. Many self-supporting units receive no state funding, and rely entirely upon generated revenues to support their operations. In most cases, self-supporting activities carry minimal cash balances. Redirecting substantial funding from these accounts to offset state budget reductions would mean that several of the self-supporting activities would, very shortly, cease to be financially viable.

The residence halls and parking services both currently generate residual balances, but these funds are intended to be used for the construction and financing of important new facilities. For example, Argenta Hall and both the West Stadium and Sierra Street Parking Structures were constructed entirely with self-generated revenues, without any participation from the state, and current fees are servicing the debt for these projects.

The School of Medicine receives most of its revenue – roughly \$45 million for the first two-thirds of the current 2009 fiscal year – through a separate budget for its clinical practice plan. This practice plan is organized as a 501(c)(3) corporation called Integrated Clinical Services (ICS). A large proportion of ICS's revenue is then transferred into the self-supporting budget to support the salaries of those UNSOM medical faculty providing medical services to the community.

Private donations to the university are also connected to self-supporting budgets. These donations are usually made to the UNR Foundation, which reports to the administration and the Board of Regents, but some are made directly to the Regents or to the Athletic Association. The university's endowments from private donations are managed in a separate budget, and then these funds are distributed when appropriate to the self-supporting budgets of different parts of the university. Private donors generally earmark their donations for specific purposes, and few donate to the university just to help cover operating costs. Some give to specific programs, some for specific purposes, and many give money for student scholarships. We cannot use these funds for other purposes, not without violating the trust of our donors and, perhaps, the law.

Another significant funding source for self-supporting budgets is dedicated student fees. A third of student registration fees are designated for a variety of special purposes, while the remainder is appropriated by the state. The greatest use of these non-appropriated student fees is for access-related financial aid programs. Other uses include capital construction costs for the Knowledge

Center (library) and the Crowley Student Union, support for the Associated Students of the University of Nevada (ASUN) activities, student union operating expenses, Intercollegiate Athletics, and, unfortunately, servicing the debt for the Fire Science Academy. Graduate students pay a comparable fraction, more than a third of which goes for financial aid, with some of the remainder going to the Graduate Student Association (GSA). Students may also be charged set fees for the unique cost of specific courses, and any fees so collected must be used for the purposes designated.

TABLE 1: SUMMARY OF 2008-2009 STATE-APPROPRIATED AND BUDGETED SELF-SUPPORTING REVENUE BY APPROPRIATION AND AGENCY

	Fiscal 2009 Operating Budget	Fiscal 2009 Self-Supporting Budget	Fiscal 2009 Combined Budget	Projected Fiscal 2009 Grants & Contracts
<i>Academic Programs:</i>				
Office of the Provost	4,979,030	24,949,070	29,928,100	258,000
Liberal Arts	26,385,138	1,543,687	27,928,825	2,601,031
Science	19,417,986	3,472,057	22,890,043	19,793,419
Engineering	11,140,613	1,969,871	13,110,484	10,260,546
Division of Health Sciences (excluding UNSOM, SHL)	9,346,952	2,521,807	11,868,759	6,517,920
Education	9,212,390	1,933,337	11,145,727	3,801,116
Business	9,474,595	960,856	10,435,451	2,181,463
Agriculture, Biotechnology, & Natural Resources	4,313,117	790,086	5,103,203	
Journalism	1,935,582	888,830	2,824,412	5,000
Extended Studies	686,336	1,094,674	1,781,010	529,549
Academy for the Environment	585,560		585,560	324,992
Subtotal Academic Programs:	97,477,299	40,124,275	137,601,574	46,273,036
<i>Administration & Finance</i>	50,840,628	14,009,535	64,850,163	20,000
<i>Student Services</i>	8,958,612	45,086,039	54,044,651	7,523,005
<i>Info. Technology, Libraries</i>	19,949,426	4,108,223	24,057,649	179,100
<i>Research</i>	3,697,653	11,411,749	15,109,402	897,427
<i>Office of the President</i>	3,183,119	7,667,252	10,850,371	
<i>Development & Alumni Relations</i>	3,987,880	2,740,760	6,728,640	
<i>Scholarships</i>	5,942,623		5,942,623	
<i>Reserves</i>	2,475,317		2,475,317	
University of Nevada, Reno (Main Campus)	196,512,557	125,147,833	321,660,390	54,892,568
School of Medicine	39,058,043	43,997,424	83,055,467	21,551,164
Intercollegiate Athletics	7,054,213	16,685,759	23,739,972	
Cooperative Extension Service	11,833,480	9,759,898	21,593,378	2,092,857
Agricultural Experiment Station	10,940,073	2,973,511	13,913,584	6,038,263
Statewide Programs	8,892,041	1,485,614	10,377,655	
State Health Laboratory	2,129,397	1,390,131	3,519,528	
Business Center North	2,681,831	626,061	3,307,892	
TOTAL	279,101,635	202,066,231	481,167,866	84,574,853

Grants and Contracts:

The third category of revenue, grants and contracts, is the most heavily restricted of the three. Grants and contracts are awarded competitively by organizations external to the university, most notably by the federal government through agencies such as the National Science Foundation, the National Institute of Health, and the Department of Energy. Most grant-funded research is done in the fields of medicine, engineering, and the physical sciences, as well as in agriculture through the experiment station. Expenditures from grant and contract funding, which are projected to total \$85 million for the 2009 fiscal year, are restricted by the granting agencies and can only be expended for the expressed purposes specified in the grant award, on budgeted expenditures like lab equipment, graduate research assistants, and wholly grant-funded research faculty. Funds from grants and contracts are not available for other purposes such as instruction, and cannot be used in any way to offset state budget shortfalls. The fines and other legal penalties from any misuse are prohibitive.

In addition to authorized expenditures, the university receives an additional portion of most grants, called F&A (facilities and administration), for overhead. While the federal F&A rate is usually 40%, many granting agencies demand much lower rates. For the 2009 fiscal year, the university expects to receive about \$14 million in F&A revenue, about 16% of expenditures. The F&A revenue is then included in the self-supporting budgets. This helps the university recover indirect costs such as research administration, the maintenance of current research facilities, and the construction of new buildings for research purposes. Some of it is also allocated by the university for new faculty start-up costs like equipping a laboratory, or allocated to the colleges and departments that produce the research to offset their administrative costs.

Tuition and Fees:

In fiscal year 2009, the university taught roughly 13,000 undergraduates and 3,000 graduate students, and these students paid roughly \$85 million in tuition and fees, not including almost \$30 million for on-campus room, board, and books. In addition to a number of fixed mandatory fees, Nevada residents paid a registration fee (in-state tuition, really) of almost \$130 per undergraduate credit, which rises to \$145 per credit for the 2010 fiscal year. Graduate students pay 50% more per credit, and every semester nonresidents pay an additional \$6,170 each in tuition, though there are nonresident discounts for “good neighbor” counties in California, children of alumni, and the Western Undergraduate Exchange (WUE) program.

The university has a “Letter of Intent” agreement with the state on how these student fees are allocated. Roughly a third of these fees are kept by the university through designated special-purpose fees, and these are included in the self-supporting budget. The rest, including out-of-state tuition, is subtracted from the operating budget to determine the state’s general fund allocation. In fiscal year 2009, this included \$34 million from the state portion of registration fees plus almost \$12 million in out-of-state tuition and a few miscellaneous fees. Students in the

School of Medicine paid 6% of this portion of the operating budget, and the other 94% came from students on the main campus.

The state uses a weighted average of enrollments for the past three years to project student enrollments forward. This projection helps the Legislature to determine the formula for the university's operating budget, particularly the instructional portion, and the Legislature has been setting the university's total operating budget to 85% of the formula amount (though this is proposed to drop to 55% under the Governor's budget). The projected enrollment is also used to project the tuition revenue the state will deduct from the total, and the effect of any increase in tuition on student enrollments is not taken into consideration in this projection.

Do students benefit when the Board of Regents increases tuition and fees? Not always, and clearly not in the present environment. The way the budget process works at the state, a series of formula calculations determine the overall expenditure level or operating budget. Once the expenditure level is determined, the legislature allocates university revenues, which consist mainly of appropriated student registration fees and non-resident tuition, and then allocates from the state general fund to make up the difference. In this way, tuition and fees serve as a direct offset to the state general fund. If any increase in tuition leads to a fall in the number of students enrolled, then this will actually reduce the university's overall operating budget in the future, not just the state's general fund contribution.

The more tuition and fee revenue available, the less of a general fund allocation is required. The Board of Regents have already approved a 5% increase in student fees and may yet adopt additional increases for Fall 2009. The best case budgeting scenario, while not as draconian as the Governor's recommendation, still forecasts total expenditure authorizations well below the budgets funded for the current fiscal year. Consequently, students will be paying more for substantially reduced services, receiving nothing in the way of improved services for increased tuition. This biennium increased student tuition and fees will only serve to fill a hole left by declining state revenues.

The revenues the university receives from students can be affected by many things, including the cost of tuition, the state of the economy, an increase in the GPA admissions requirement, a reduction in the funding of the Millennium Scholarship program (which are not indexed to inflation or increases in tuition), or the creation of a new state college. Some of these are not under our control. The university has suggested correcting the way the state accounts for student tuition and fees, so that the university can benefit from any increased tuition. The Legislature, however, has not yet been willing to allow the university control over increases in its own student revenues.

The Capital Improvement Budget:

In addition to the state-supported operating budgets, self-supporting budgets, and grants and contracts, the university has a separate capital improvement budget for the construction of new

buildings. Usually, these budgets are set by the Legislature, and the university is expected to raise additional funds from private donors, F&A allocations from grants and contracts, and even student fees. These capital budgets are project-specific, and these funds cannot be spent on other categories or projects. Readers of the local newspaper who ask how the university can be cutting its budget, eliminating its programs, and laying off faculty and staff while it is also constructing the new math and science building need to understand that these funds come from a completely different budget, and are not the result of misplaced priorities.

The Big Picture:

The Governor's budget proposal of January, 2009, included cuts of \$76 million in the university's operating budget. The Governor has defended these cuts by arguing that state appropriations are only one of the university's many sources of revenue, and indeed, as a share of the combined operating and self-funded budget, the proposed cuts for the 2010-2011 fiscal years are 22% below the 2009 budget. Some of the Governor's supporters have even included contracts and grants in their calculations, while the university's defenders have noted that the proposal is a 50% cut to the state's support of the university's main campus operating budget, where most instruction is carried out, while leaving other budget areas relatively unaffected.

TABLE 2: RELATIVE MAGNITUDE OF THE GOVERNOR'S PROPOSED CUTS

	Proposed Cuts	2009 Budget State Funds		2009 Budget Operating Budgets		2009 Budget Operating + Self-Supported	
University of Nevada, Reno	-71,795,243	144,152,936	50%	196,512,557	37%	321,660,390	22%
School of Medicine	-1,762,823	36,333,039	5%	39,058,043	5%	83,055,467	2%
Cooperative Extension Service	-1,002,531	9,976,270	10%	11,833,480	8%	21,593,378	5%
Agricultural Experiment Station	-436,628	9,686,428	5%	10,940,073	4%	13,913,584	3%
Statewide Programs	-953,757	8,892,041	11%	8,892,041	11%	10,377,655	9%
Intercollegiate Athletics	-53,359	7,054,213	1%	7,054,213	1%	23,739,972	0%
Business Center North	-278,668	2,681,831	10%	2,681,831	10%	3,307,892	8%
State Health Laboratory	-128,219	2,129,397	6%	2,129,397	6%	3,519,528	4%
TOTAL	-76,411,228	220,906,155	35%	279,101,635	27%	481,167,866	22%

The Governor's budget proposal results in an overall 37% cut to the operating budget of the main campus, assuming the Legislature and the Board of Regents allow these cuts to be implemented as proposed. As a result of the external restrictions associated with grants and contracts and the fiscal limitations of self-supporting functions, these cuts fall almost exclusively on the university's instructional and support budgets, and academic programs will inevitably be damaged. Other than implementing dramatic increases in student tuition and fees, the university has limited options when cuts approach these levels. It is hard to imagine any way to implement these cuts without doing long-term damage to the state, the university, and its students.

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