

ANDREW C. COMRIE

Like Nobody's Business

An Insider's Guide to How
US University Finances
Really Work



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1. Introduction

1.1 Preface

Universities are fascinating institutions. For almost 1,000 years, these corporations of teachers and scholars have been searching for knowledge and transmitting it. In carrying out this mission, universities are “things of unruly paradox”¹ that operate as the birthplace and battlefield of ideas, constantly enlightening, challenging, solving, confounding, serving, criticizing, creating, reasoning, and frustrating both themselves and their stakeholders. And yet, focusing on my initial term above, universities are corporations too. In fact, *universitas*, the Latin root of the word, literally means “corporation” as in a company or guild.² It’s odd, then, as institutions built on the very notion of knowing, that the people in and associated with universities know so little about them as corporations in the business-oriented sense of the word. That’s the charge I’m taking on in this book: to explain how the business of the university works, to provide a grounding in what people want to know and ought to know about how money really flows in and around these vital institutions.

Contemporary universities are part of a global higher education enterprise that has seen unprecedented expansion for decades, growing and succeeding, as the idiom says, like nobody’s business. The breadth and complexity of how universities are funded and operated make them, in a managerial and practical sense, utterly unlike any other business either. Nowhere are these observations truer than for universities in the US. During the twentieth century individual states invested in their higher education systems, sometimes more and sometimes less, while elite private universities continued to flourish. Simultaneously, the GI Bill, Pell Grant program and unprecedented research investments at the federal level propelled US higher education into a position of world leadership. These factors, along with the significant

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- 1 Ben Johnson, a past Chair of Emory University’s Board of Trustees, coined this redolent term when he said, “A great university is a thing of unruly paradox. It is a place of tranquil reflection and a testing place and indeed a battleground of outrageous ideas... It requires stability, yet is a catalyst for change. It teaches respect for boundaries, yet encourages pushing those boundaries. It is a place of self-conscious egalitarianism, yet a place of studied rank. It trains for the sacred, as well as the secular. It gleans from the past, to prepare for the future.” (Williams 2013)
 - 2 The full Latin phrase describing an academic corporation is *universitas magistrorum et scholarium*, a “guild of masters and scholars” that had collective legal rights guaranteed by charter, was self-regulating, and determined the qualifications of its members (Wikipedia 2019b).

absence of unifying central control by a national ministry of education (unlike many other countries), produced a large, diverse system of universities and colleges and, importantly, an intensely competitive academic marketplace in which they function. US universities are constantly competing for students, for faculty, for facilities, and for the resources to support them and further fuel their success, and generally do so as nonprofits in a business environment like no other. And, US universities have graduated, like no other, tens of millions of people, redefining the middle class to such an extent that a college degree has replaced a high school diploma as the ticket to career success. Finally, add to all this our cultural embrace of universities, their simultaneously elitist and egalitarian aims, their parts in the concurrent pursuit of individualistic American dreams and civic Jeffersonian ideals, their uneasily parallel functions as engines of both social reproduction and of social change, their depictions in movies and novels as variously idyllic or sophomoric, the unique role of college sports, the considerable financial support by alumni and donors, and our obsession with ranking them. In both senses of the phrase then—of a lot happening and of being unlike any other—it's no wonder that the responsibility of running a US university has grown like nobody's business.

There are three broad aspects of running (i.e., administrating) a university: (1) supporting the *academic mission* through teaching and research programs involving primarily the faculty and students, as well as outreach/community engagement; (2) leading and managing the *people*, as in any enterprise, and including here the extensive specialized faculty and staff, administrators, and other employees of the institution; and (3) generating and managing the *money* that pays for it all, from revenue generation to expense allocation, including budgeting, accounting, finance and, increasingly, the nature of the business model. For the faculty, staff, students, alumni, and community members, of these three broad aspects, arguably none is associated with more mystery, confusion, myth or general lack of understanding than the third: money, and the business of the university, the corporation, that it represents.

A significant part of the university spends its time worrying about the first point, academics, especially those in the departments, schools, colleges, centers and institutes. Because the academic mission is the *raison d'être* of the university, how the academic part of the university works is generally well-understood by those who labor in it. Regarding the second point, people: although the faculty generally eschews issues of administration and management, non-academic employees are typically in the majority by a substantial margin—leading and managing people is something that many of them do every day. Furthermore, while there is always room for more to be written and learned about the practical science and elusive art of leading and managing people, especially in academia, there is nonetheless a significant literature already established on how to do so.

Yet the third point, money, is at best only partially understood by the vast majority of those who work on or with a campus. The sheer range and complexity of university

finances, when combined with the limited number of people on a campus with the expertise and institution-wide perspective to explain them means that, despite its vital role for the successful operation of the institution, this aspect of how a university works is poorly understood by many who need to know it better. Worse yet, there are serious misunderstandings and oversimplifications of university funding that are commonly held, both on campus and off, and which can lead to poorly-informed decisions and detrimental outcomes.

I'm not entirely sure why the ins and outs of university funding have ended up as such a mysterious topic, with connotations of secrets shared only by those in the know, but I hypothesize that it is the result of at least a few factors: university finances are inherently complicated; revenues have diversified faster than the general understanding thereof; and, administration has historically been a distraction from (and anathema to) academic pursuits. Taking each factor in turn, universities are complicated institutions and their finances reflect this fact.³ Ironically, public university budgets in all their detail are in fact public, but they are opaque to lay readers because of the necessary technical complexity required to appropriately reflect proper financial rules and institutional accounting practices. Next, university revenue has become far more diverse since the days of direct appropriations that covered most core costs. In public institutions, recent decades have seen a growth in fundraising that is starting to rival the privates, tuition is now a major revenue source, research funding is far larger from both government and private industry, and states have become minority shareholders in terms of the proportion of public university budgets that they fund. Tending to each source requires specialized expertise and experience beyond the realm of most university citizens. Furthermore, there is a longstanding social convention that faculty members don't need or want to be distracted from their scholarly pursuits by the details of administration, which includes the realities of funding flows. Indeed, the role of administrator is often a derogatory stereotype, and faculty who take on administrative roles are half-jokingly said to have crossed over to "the dark side." Likewise, some administrators can be tone deaf to faculty concerns. Much of that culture is understandable, if not constructive, and the blame for this state of affairs, as well as the responsibility to fix it, falls squarely on both sides. Still, an unfortunate side-effect of the oversimplified us-versus-them attitude is a naïve and sometimes misleading understanding of how the institution operates financially.

I can recall times as a junior faculty member when a senior colleague would opine that we were "paid to think" by society, sometimes with the added implication that teaching undergraduates was a necessary irritation. For most universities in the US, to the extent that such a self-absorbed view was ever even partially true, those days

³ William McRaven, a decorated military commander who served as chancellor of the University of Texas system, described the position of university president as "the toughest job in the nation" (Thomason 2018) because of the multifaceted competing political and financial challenges of running such a complicated organization.

are long gone.⁴ While the end of the era of more-or-less full public funding for US higher education is still bemoaned by many on campus, it doesn't alter the fact that the halcyon days of public funding for higher education began to recede as long ago as the 1970s and 1980s. This trend accelerated in the 1990s and became a stark reality with the Great Recession that arrived in late 2008. A business model based on increasing privatization and neoliberal precepts is simply the fact of life for a contemporary US campus, reflecting a substantial shift in higher education from a public good to a private good. While I personally don't condone this shift, I am nonetheless a pragmatist: it is hard to argue against the reality that the success of a contemporary US university relies on it being able to function well in this economic environment.

Therefore, whether those of us in higher education like this situation or not,⁵ it is worth understanding how university funding works within institutions and across the higher education landscape. For example, at the microeconomic level, and as colleagues serving students and wanting to advance the university, it is essential that we better understand how and why we might increase funding for a program or initiative, or how we provide the necessary support services, or what the financial and academic trade-offs are among different approaches to delivering on the university's academic mission. Further examples, at the macroeconomic level, include dealing with changes in college-going rates, federal funding, and the growth of online education. Perhaps because of the diversity of funding flows across a university, and how they intertwine to make these great institutions run, learning how it all works can be extremely valuable for many campus stakeholders. After all, as responsible members of the university community we *should* know how our institution works so that we can better enable the effective pursuit of knowledge and learning. This need has been made even more essential by the economic and financial effects of the COVID-19 pandemic on higher education.

This book is not a conventional text on higher education budgeting, finance or accounting, and I didn't write it as a published scholarly expert on university funding—any expertise I have was learned on the job. There are some useful books out there that are by recognized scholars and/or are technical texts (Massy 2003; Weisbrod et al. 2008; Archibald and Feldman 2011; Kretovics 2011; Lombardi 2013; Serna and

4 Clark Kerr, who was chancellor of UC Berkeley and then president of the University of California system during the boom years of the 1950s and 1960s, captured this tension with a metaphor (Moore et al. 2013), "The cherished view of some academics that higher education started out on the Acropolis of scholarship and was desecrated by descent into the Agora of materialistic pursuits led by ungodly commercial interests and scheming public officials and venal academic leaders is just not true for the university systems that have developed at least since 1200 A.D. If anything, higher education started in the Agora, the market place, at the bottom of the hill and ascended to the Acropolis on top of the hill... Mostly it has lived in tension, at one and the same time at the bottom of the hill, at the top of the hill, and on many paths in between."

5 In a recent essay, Adam Daniel and Chad Wellmon (2018) argue that higher education's insatiable appetite for acquiring more roles and complexity will be its undoing. They coin the term "omniversity" to replace Clark Kerr's "multiversity" and contend that the university's varied commitments are pulling it apart.

Weiler 2016; Barr and McClellan 2018; D.O. Smith 2019). There are also some excellent recent volumes that are broader in scope and that touch on selected topics in this book (Bok 2013; Clotfelter 2017; Brint 2019; Geiger 2019). All of the above are valuable references for the eager reader. My aim with this book is slightly different: I would like it to serve the kind of reader who is interested in getting a grasp of the essentials of university funding in an approachable form, one that can engage a relative novice while also informing those readers with more background knowledge, and to do so comprehensively with a heavy emphasis on data and visuals. Thus, my intended audience is broad and includes administrators, faculty, staff and students on campus as well as alumni, parents, fans, community members, the media, board members, policy makers and others who deal with higher education. While it can certainly be read from start to finish, this book is designed so that the reader can “dip in” to a specific topic of interest in modular form. I have written the book I wish I’d had when I first had to discover how money flows in a university, i.e., as a non-expert faculty member who became an administrator and had to figure it out bit by bit. Since then, in countless budget presentations I’ve made as a central administrator, I have learned that most stakeholders in the university community are eager to learn how the money works to enable the successful functioning of the institution and their part thereof. As the questions flow in those talks, as they inevitably do, many in the audience are fascinated as the shrouds of mystery are removed, prompting even more queries and explanations. I’ve attempted to collect all those questions, asked from an everyday perspective and, in answering them, illuminate how the business of the university works and fits together.

In my experience, there is no more effective way to achieve this understanding than to use real-life facts and figures on university funding along with clear, even pithy, explanations. Better yet, if one starts with simple questions asked by many on campus, the resulting answers lead to more questions and greater engagement, developing precisely the clarity we desire. So, this book will “follow the money” or, more precisely, follow the *data* about how money flows in a university.⁶ While those flows are often complicated, and sometimes complex (there’s a difference), gaining an understanding of the basics of how money flows in a university is not hard. It just needs to be explained in everyday language with a minimum of financial and accounting jargon, exposing myth and misunderstanding with appropriate data analyses, and illustrating how things truly work with factful charts and graphics (Nyhan and Reifler 2019).

It’s easy for a financial topic to seem boring to a non-specialist, just as I have found that science can seem boring to non-scientists in my academic work. I remember a book from my kids’ childhood called *The Big Book of Why* (Perritano 2010) that presented

⁶ The phrase “follow the money” was coined in the 1976 movie *All the President’s Men* to describe how to get to the bottom of financial dealings in the Watergate crisis. It has since been used widely in many contexts, sometimes without the negative connotation, as a verbal shorthand to understand how a process or organization really works. It’s used in that latter sense here.

science nuggets in an appealing way to children, playing off intriguing (and sometimes impolite) questions and engaging graphics. A fine example of effective communication about business and economic issues to a non-specialist audience is *Marketplace* on public radio (Marketplace 2020)—it is engaging, literate and entertaining, and one of my favorite shows. As a comprehensive compendium for the non-expert there is no better model than Mark Bittman's *How to Cook Everything* (Bittman 1998), another personal favorite. I've tried to incorporate a sense of those styles in this book to explain university funding to non-specialist readers. As a result, it is an introduction, a Frequently Asked Questions (FAQ) list, a chartbook, a pictorial guide at times, a quick-start user's handbook rather than a dense technical manual or, to use academic analogs, a summary akin to *Cliffs Notes* or a 101-level course on how the money works in a contemporary US university.

At one point the working title of this book was *Seeing the Elephant*, a reference to the ancient parable of the blind men, each touching a different part of an elephant and who, when each was asked to describe the animal he was touching, provided a completely different interpretation because he could only sense the part and not the whole. The person touching the trunk thought it might be a snake, the one touching a leg suggested a tree trunk, the one touching the tail supposed it was a rope, and so on. It's an apt metaphor for the widespread poor or partial understanding of how contemporary US university funding works and how limited views from different stakeholders are projected onto the whole. As I learned when looking up the phrase, it also has a relevant second connotation that dates to Civil War times, meaning to have experienced action in combat, to have seen what lies over the hill, or to have overcome an adversity. In all senses I've certainly "seen the elephant" in my experiences as a faculty member and senior administrator—I hope to share some of those insights with you in this book.

Box 1.1. Early University Funding

The first independent universities not established by religious authorities emerged during medieval times in Europe (although the first full-fledged university-like institutions with religious affiliations were Taxila around 800 BCE and then Nalanda in 427 CE, both in what is now India, and Al-Quaraouiyine in 859 CE, in Morocco). The independence of the European universities was born in part from a desire for academic freedom, and the institutions were formed as corporations of scholars and students with an organizational structure and an elected leadership. The price of autonomy was a different funding model: tuition and fees. Initially the students contributed a donation in place of paying outright tuition because knowledge was considered to be given by God and therefore not able to be sold. Unsurprisingly, students did not always make their donations. No doubt the early bursar's office, formal salaries, and the need for financial aid followed soon after!

This development of independently funded institutions also marked the emergence of market forces in higher education because work conditions and the course of study had to meet expectations. Needing little or no specialized physical infrastructure, it was relatively easy for faculty or students to move to a different city and establish or join another competing institution (The Editors of Encyclopedia Britannica 2016; University of Bologna 2018). For example, the University of Padua (est. 1222) was formed by a group that split off from the University of Bologna (est. 1088). Bologna is the oldest secular university and the Latin *alma mater studiorum* on its seal (Figure B1) means “nourishing mother of studies” (yes, the original alma mater), while Padua can boast Galileo Galilei as a former Chair of Mathematics (1592–1610) and both Nicolaus Copernicus and Elena Cornaro Piscopia, the first woman to receive a PhD, as alumni.



Figure B1. Seals of the universities of Bologna (left) and Padua (right) including the year that each was established. Sources: University of Bologna, Image by Malinion (2016), Wikimedia, Public Domain, https://upload.wikimedia.org/wikipedia/commons/d/d0/Seal_of_the_University_of_Bologna.svg, and University of Padua, Image by OMT5500 (2017), Wikimedia, Public Domain, https://upload.wikimedia.org/wikipedia/it/5/53/Logo_Universit%C3%A0_Padova.svg.

1.2 Structure

The business of the university can be thought of as having six major functional elements (Figure 1.1). The foundation of university funding is students, the community and broader society. Together they support the core threefold academic mission pillars of teaching, research and public service. University business is coordinated by the administration, and it is in turn overseen by external groups such as the state or trustees (that represent the foundational broader community). The hierarchy of service is

primarily to students and the broader community (the principal stakeholders served by the university) and then successively to the remaining layers, which can also influence each other. The hierarchy of management is the other way around, with universities chartered and presidents appointed by states and/or a board of regents/trustees. The organizational chart proceeds down through administration to employees in the academic functions. Money flows between and within these functional elements, often in complicated ways among the academic pillars, where individual employees and units often have overlapping responsibilities across all three academic mission areas.

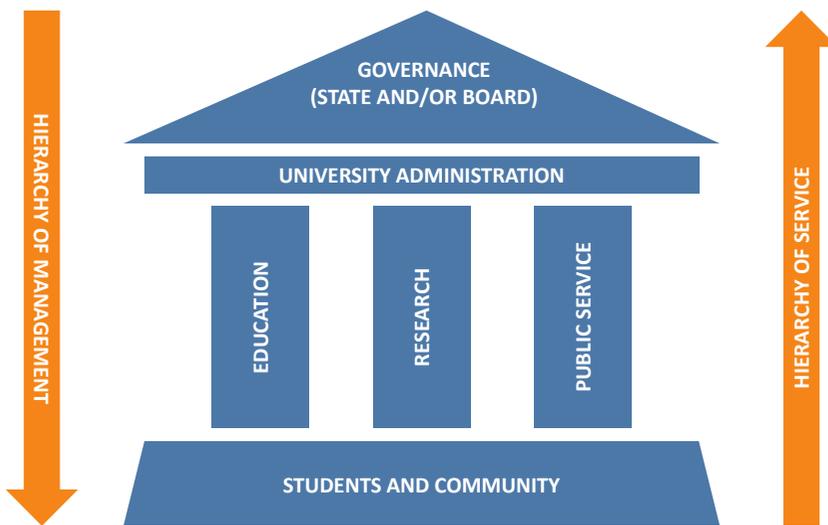


Figure 1.1. Schematic of the six major functional elements of the university.

As we discuss the various parts that make up these major functional elements and how they work financially, you will see this overall structure represented throughout the book. The chapters don't all correspond directly to the six-element structure because there is more detail to the functional organization in practice (skip ahead to Figure 5.1 if you're interested) and I thus expand upon several areas with distinct funding characteristics. Following this introductory chapter, Chapters 2 and 3 focus on institutional revenues and expenditures and Chapter 4 covers public funding, with all three of these chapters connecting to the external elements at the top of Figure 1.1, as well as the foundational student and community elements at the base. The remaining chapters deal with internal components of the university, starting with Chapter 5 on the human resources of instructional and support staff. The next four chapters move on to the mission pillars: Chapter 6 focuses on academic affairs and Chapter 7 covers associated student affairs and support services, Chapter 8 covers research activities and Chapter 9 covers public service, including extension services. We shift to facilities and finance in Chapter 10, and then we consider the somewhat different funding models of the health sciences and hospitals in Chapter 11. Athletics is the topic of Chapter 12,

and we circle back to community again in Chapter 13 to focus on fundraising. Chapter 14 concludes the book by examining outcomes and considering the future.

1.3 Budgets don't make decisions, people do

It's not too early to point out something fundamental, something that is easy to forget when discussing university funding: at all times we must ensure that decisions are made first on the basis of academic and societal priorities. Budgets are unquestionably a vital component of decision-making and they can enable or constrain activity, sometimes dramatically, but it is a mistake to let budgets be the core driver of decisions. Even when there is not enough money (which is most of the time, see Bowen's Law in Section 3.7) the decision is more that the proposed activity cannot be prioritized over other competing priorities given the available resources. We should never lose sight of human agency in making money-related decisions about the business of the university—competing priorities are assessed and assigned to deliver on the mission of the university (i.e., ultimately, even if an individual decision is a smaller one).

Expressed another way, in a nonprofit enterprise such as most universities, the "bottom line" on the balance sheet is not dollars (by definition, that is held to zero). Our threefold bottom line is comprised of students graduated, knowledge discovered, and impact on the community. Universities are social enterprises operating under business constraints while, in contrast, companies are business enterprises operating under social constraints. Companies exist to make a profit. Universities exist to make graduates, knowledge, and societal impact (see Box 3.2).

The pursuit of financial resources to support those social goods consumes a substantial amount of time and effort for many on campus. Money is, quite literally, the means by which we carry out the business of the university, albeit a tool that works for us and not the other way around.

1.4 Notes on data

As I mentioned earlier, I employ data extensively to illustrate and explain concepts throughout this book. Most of the data I present can be found in openly accessible reports, online data warehouses, and books. It is all regular stuff for those who specialize in higher education institutional finance and data analytics. However, while much of the information appears individually in those places, this wide *range* of data is rarely pulled together in one place to tell a comprehensive overall story such as I lay out in the coming chapters.

A quick pedantic note: data are plural. I'm trained as a scientist and I served as a journal editor, and therefore I am compelled to say, "data are" rather than "data is" or "these data" rather than "this data" and so on. Data are like staff, or the faculty, a collective noun. Technically, the singular of data is datum, but that is too fussy even for

me. I prefer data point, data element, etc., just as we would say staff member or faculty member (and not “a faculty” to refer to an individual person as I’ve sometimes heard in stifled horror!).

The largest and most comprehensive publicly accessible repository of higher education data is IPEDS, the Integrated Postsecondary Education Data System, run by the US Department of Education’s National Center for Education Statistics (US Department of Education 2020b), hereafter referenced as IPEDS (2020). It is a veritable trove of information where you can find many useful summaries as well as technical details just a few clicks into the data section. I have made extensive use of IPEDS’s financial and related data in this book. Where necessary for comparison, I have used the closest corresponding categories to allow for technical accounting differences applicable to public and private institutions, and known by their acronyms, GASB and FASB, respectively (US Department of Education 2018). I’ve augmented the IPEDS data with useful information from reports, academic papers, and statistical websites, and I cite specific data sources in each case.

Inflation adjustments were made using Consumer Price Index (CPI) data from the US Bureau of Labor Statistics (2018b) to convert financial trend data to constant dollars. As a technical detail, I utilized the standard CPI-Urban values for January to reflect the midpoint of each fiscal year.

There are literally thousands of colleges and universities in the US, each with its own set of data. In many analyses it is useful to draw on the overall average or a set of group averages as the clearest way to illustrate key patterns. Thus, I have selected a large cross-section of schools with varying characteristics that represent the range of institutions in the US, essentially all of the public and private nonprofit four-year institutions in the country. My selection criteria were as follows, using IPEDS (2020):

- US only
- Title IV participating (i.e., participating in federal financial aid programs)
- Control:
 - Public, four-year or above
 - Private nonprofit, four-year or above (i.e., excludes two-year and for-profit institutions)
- Carnegie Classification 2015
 - Doctoral Universities: Highest Research Activity (R1)
 - Doctoral Universities: Higher Research Activity (R2)
 - Doctoral Universities: Moderate Research Activity (R3)
 - Master’s Colleges & Universities: Larger Programs (M1)
 - Master’s Colleges & Universities: Medium Programs (M2)
 - Master’s Colleges & Universities: Small Programs (M3)

- Baccalaureate Colleges: Arts & Sciences Focus (BAS)(i.e., excludes professional schools or colleges with special focus)
- Has full-time first-time undergraduates (i.e., not graduate-only)
- Branch campuses reporting separate financial information
- Valid data for common variables and years analyzed

The resulting data set covers most universities and four-year colleges across the nation and includes 468 public and 706 private institutions, for a total of 1174 in the data set. The Carnegie Classification (Indiana University Center for Postsecondary Research 2015) provides useful categories representing academic level, size and scope. I have collapsed the smaller Carnegie institution types into one group because their financial profiles are broadly similar, producing four categories: R1, R2, R3-M3 and BAS. I have selected only nonprofit institutions to keep the scope of the book consistent and because for-profit colleges, by definition, operate under a separate suite of financial and academic conditions. The set of selected institutions is summarized in Figure 1.2 and mapped in Figure 1.3. A listing of the institutions in the data set appears in Appendix A. This set is used throughout the book where possible, in order to make comparisons consistent and easy to understand.

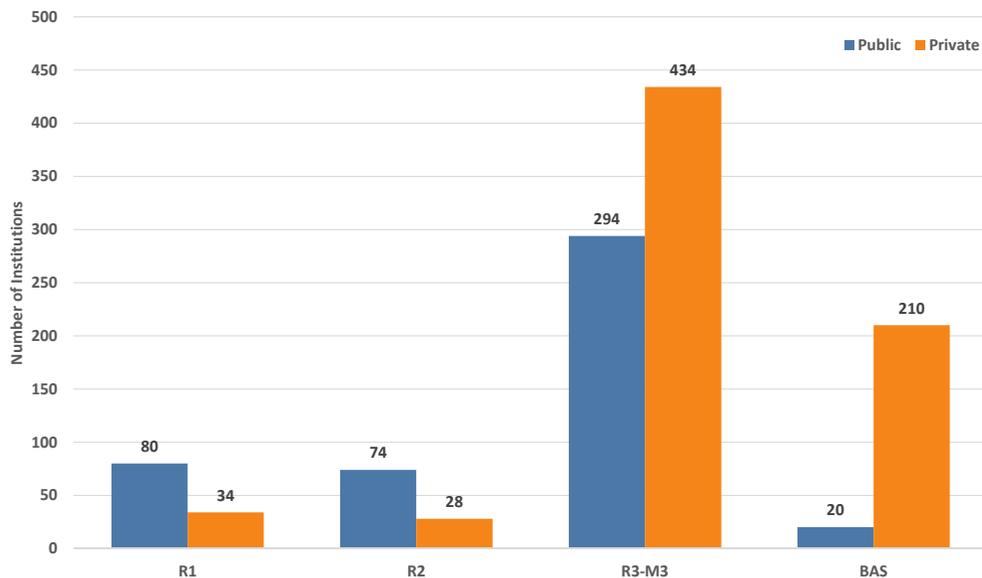


Figure 1.2. Number of public and private institutions in each Carnegie category of the data set used for analysis. See text for details. Source: IPEDS (2020).

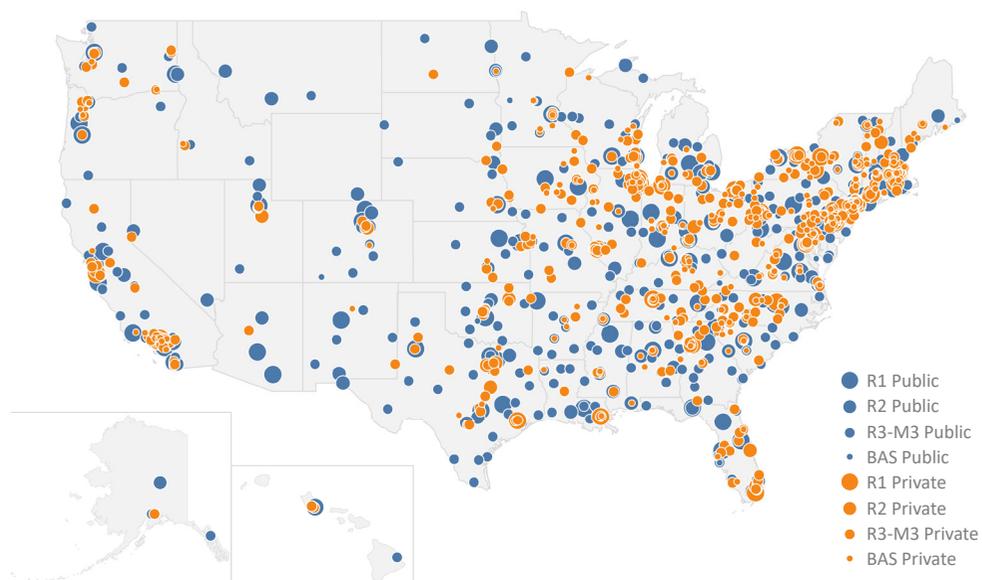


Figure 1.3. All 1174 universities and colleges in the data set, showing location, Carnegie Classification, and public or private control. Alaska and Hawaii are not to scale. Source: IPEDS (2020).