

Finances at a State Supported University: A Case Study

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Finance, Real Estate, and Law

In the last 25 years, not-for-profit organizations as a whole appear to have become larger and less government subsidized. Although eleemosynary institutions represent a significant and growing sector of the U.S. economy, few would doubt that charities' special status of not being oriented towards returning profits on owners' investments (but instead being oriented towards spending the funds given to them in accordance with donors' intent) has resulted in financial management systems far less developed than those typically used by for-profit companies. For example, not-for-profit organizations are subject to fewer legal requirements for disclosing financial information to outsiders, nor has a tradition of continuous, consistent disclosure developed. An excellent example of the trends can be found in the state supported teaching university. The purpose of this paper is to illuminate the budget process at one such university in order to evoke thought on how the process works, and how it differs from the process normally found in the private sector, with an eye on triggering ideas on how to enhance non-profit financial management systems.

Introduction

A classic Burger King commercial of the 1980s posed the question: "Where's the Beef?" The "Beef" that this author seeks to find is the amount of money spent to support the educational mission of a state-assisted teaching University. The University chosen is the formerly state supported California State Polytechnic University at Pomona (Cal Poly Pomona). Cal Poly Pomona is a mid-sized member of the group of 23 universities which comprise the California State University (CSU) system. The information which is the basis for this article is found in three different reports. The University Library special collections contains California State Polytechnic University, Pomona University Expenditure Report for 1995/96 and 1996/97. These are the only two annual expenditure reports, according to the Vice President for Administration's Office. The special collections also holds documents entitled *California State University Pomona General State Budget*.

In 1996-97 the budget format was changed to provide the CSU System Chancellor's Office with "flexibility in reporting uniform financial data." The change in format makes it difficult to use past budgets to identify trends. The final source is the *California State University System Combined Statement of Revenues and Expenditures (unaudited) for 1995/96 and 1996/97*. This report allows Cal Poly Pomona's expenditures to be compared with reported expenditures of the 21 other institutions which then comprised the California State University. The expenditures Cal Poly Pomona reports in this document differ from the campus expenditure report for the respective years; the format also differs. The purpose of this paper is to illuminate the budget process under consideration. The 1995/96 University Expenditure Report contains the 1996/97 budget which will be compared with the 1996/97 expenditure report to highlight budget variances.

Sources and Uses of Funds

The *University Expenditure Reports* contain information detailing the sources and uses of funds for the respective fiscal years. The glossary of this document contains important definitions. Key definitions to understand in this article include:

- Fiscal Year:** The period from July 1 to June 30 of the following year.
- Divisions:** On this campus the colleges/departments/units are part of six divisions: President, Academic Affairs, Instructional and Information Technology, Administrative Affairs, Student Affairs, and University Advancement.
- Faculty:** Defined by Unit 3 classifications and includes instructional faculty, lecturers, department chairs, librarians, counselors, and coaches.
- General Fund State Support:** Funds which the legislature appropriates each fiscal year.
- Reimbursements:** Includes faculty assigned time which is paid for from grants or contracts, leases of campus facilities, and other transfers or expenditures which "may enhance the primary mission of the university".

The global view of the sources of funds for the campus for the respective fiscal years (F.Y.) is as follows:

Table I
Sources of Funds

	<u>F.Y. 1996-97</u>	<u>% of total</u>	<u>F.Y. 1995-96</u>	<u>% of total</u>
General Fund	\$ 125,892,342	93%	\$ 120,034,420	91%
Reimbursements	1,625,896	1%	2,137,335	2%
Continuing Education	1,945,806	1%	1,984,081	2%
Housing	2,995,878	2%	3,974,184	3%
Lottery	1,873,755	1%	2,323,363	2%
Parking	<u>969,461</u>	1%	<u>1,175,152</u>	1%
Rounding		<u>1%</u>		<u><1%></u>
Totals	<u>\$ 135,303,138</u>	<u>100%</u>	<u>\$ 131,628,536</u>	<u>100%</u>

Table I indicates the extent of Cal Poly Pomona's reliance upon state support for operations. The increased General Fund contribution resulted from an increase in the General Fund dollar amount and decreased dollar amounts from the other sources.

Table II**Uses of Funds by Division**

	<u>F.Y. 1996-97</u>	<u>% of total</u>	<u>F.Y. 1995-96</u>	<u>% of total</u>
President	\$ 672,583	.5%	\$ 780,542	.6%
Academic Affairs	78,734,265	58.2%	86,999,997	66.1%
Instructional & Information Technology	10,938,403	8.1%	N/A	N/A
Administrative Affairs	18,576,635	13.7%	17,102,062	12.0%
Student Affairs	18,618,974	13.8%	18,860,682	14.3%
University Obligations (Financial Aid)	5,860,585	4.3%	6,033,109	4.6%
University Advancement Rounding	<u>1,901,692</u>	<u>1.4%</u>	<u>1,854,144</u>	<u>1.4%</u>
	<u>\$ 135,303,138</u>	<u>100%</u>	<u>\$ 131,628,536</u>	<u>100%</u>

Table II summarizes the uses of funds for the respective fiscal year. The euphuism "university obligations" is financial aid which the Chancellor committed to provide out of the appropriations when the Legislature approved fee increases. The Legislature avoided appropriating additional funds for financial aid with this agreement by the Chancellor to provide financial aid to offset fee increases. This deal necessitates higher fees for students who do not qualify for financial aid. Note that for the 1997/98 fiscal year budget, student university fee revenue is forecasted as \$25,997,610. University obligations total \$6,257,807 which represents 24.1 percent of fee revenue.

The uses of funds may be examined from a different perspective. Table III presents expenditures as a percent of general fund expenditures and total campus expenditures for the fiscal year periods.

Table III**Employee Cost and Operating Expenses as a Percent of Total Expenditures**

	<u>F.Y. 1996-97</u>	<u>F.Y. 1995-96</u>
Faculty	28.12%	28.10%
Temporary Faculty	7.26%	6.86%
Staff & Administrators	24.93%	23.72%
Student Assistants	1.66%	1.66%
Employee Benefits	<u>16.27%</u>	15.85%
Rounding		<u>.31%</u>
Total Salary/Benefits	78.24%	76.50%
Total Other Operating Costs	<u>21.76%</u>	<u>23.50%</u>
Total Expenditures	<u>100%</u>	<u>100%</u>

For fiscal year 1996-97 faculty and temporary faculty compensation (**including benefits**) as a percent of total expenditures was approximately 44.67%. Expenditures for temporary faculty as a percent of total faculty expenditures increased to **25.82%** from **24.41%** in the prior fiscal year. In fiscal year 1996-97 university obligations (appropriations directed to financial aid) constituted 59.23% of expenditures temporary faculty for fiscal 1996-97. For fiscal 1995-96 university obligations were 67.05%. Thus it is apparent that the unfunded mandate to provide financial aid from general fund monies significantly affects program support at the University.

Program Costs Across the University

The Cal Poly Pomona 1996/97 *University Expenditure Report*, under Academic Affairs expenditures, reports expenditures by colleges and schools. There are the College of Agriculture, the College of Letters, Arts, & Social Sciences (CLASS), the College of Business Administration, the College of Engineering, the College of Environmental Design (ENV), the School of Hotel and Restaurant Management (HRM), the School of Education and Integrative Studies (SEIS), and the College of Science. Table IV reports selected expenditures by category and total.

It should be noted that the very small expenditure on temporary faculty by Agriculture contrasts with the large expenditures on temporary faculty by CLASS and SEIS. The small expenditures by Engineering and Science on equipment stand out, given the nature of their programs. Faculty from these Colleges have lamented the outdated and dysfunctional equipment in the labs; new facilities are being built, however. The relatively small expenditure on travel by the College of Science also stands out. This may indicate that fewer faculty are receiving support to present papers and attend conferences.

Table IV
1996/97 Major Expenditures by College or School

	Agriculture	CLASS	Business	Engineering	ENV	HRM	SEIS	Science
Faculty	\$ 2,926,577	7,740,641	6,964,722	6,417,051	2,666,258	704,778	1,395,793	7,725,501
Temporary Faculty	206,986	2,785,398	1,671,722	1,359,982	493,896	290,693	724,391	1,298,832
Staff/ Administration	1,127,354	1,325,242	940,317	1,063,246	692,945	270,584	482,590	1,438,342
Benefits	1,171,769	3,057,717	2,414,794	2,240,400	1,005,776	334,109	647,225	2,744,601
Supplies & Services	216,053	398,134	195,462	374,456	138,750	118,781	116,697	233,677
Equipment	28,356	27,898	56,435	5,130	13,161	16,607	9,342	31,717
Travel	22,154	93,843	50,027	45,022	11,969	8,545	26,717	18,038
Total Expenditures	\$ 5,847,940	15,736,703	12,499,489	11,664,124	5,101,760	1,748,472	3,426,923	13,705,387

The information in Table IV can be combined with the Full Time Equivalent (F.T.E.) – a measure of the effective number of full time staff in classes taught – taught by discipline to calculate an estimated cost per F.T.E. for each college and school.

Table V
Estimated Cost Per F.T.E. 1996-97
for Colleges and Schools

	<u>Total Expenditures</u>	<u>Faculty Expenditure</u>
Agriculture	\$ 7,790	5,290
Engineering	7,020	5,852
Hotel, Restaurant Management	6,952	5,002
Environmental	5,880	4,581
Science	5,274	4,368
Business	4,438	3,833
SEIS	4,351	3,360
CLASS	\$ 3,497	2,935

The average cost per F.T.E. based on total expenditures by Cal Poly Pomona is computed as \$9,450. This cost reflects the overhead expenses above direct costs of instruction. The *University Catalog* reports an estimated average cost per F.T.E. of \$9,872 based on the expenditures by the entire California State University System. Cal Poly Pomona's expenditures for instructional faculty for fiscal year 1996-97 totaled \$57,307,114 including estimated benefits. The spending per F.T.E. of \$4,002 is 40.54% of the estimated system average total cost of \$9,872.

Table VI which follows indicates spending on temporary faculty as a percent of total faculty salaries. The percentages exhibit the same high variation exhibited in the Table V data.

Table VI
Temporary Faculty Salaries as a Percent of
Total Faculty Salaries by College and School

SEIS		34.2%
HRM		29.2%
CLASS		26.5%
BUS		19.4%
ENGR		17.5%
ENV		15.6%
SCI		14.4%
AGR		6.6%

The variability of costs can be explained by several factors. These include designated market differentials, reliance on temporary faculty, and F.T.E. taught. The influence of designated market salary differentials (now a thing of the past) and use of temporary faculty may be held constant by comparing Business and Engineering. Both college's faculty received designated market discipline differentials and utilized temporary faculty in approximately the same percentages. The difference in cost per F.T.E. for these two colleges thus can be attributed to F.T.E. differences.

Agriculture, CLASS, and SEIS are non-designated market discipline divisions. CLASS and SEIS rely heavily on temporary faculty and have significantly higher F.T.E. HRM, for which temporary faculty expenditures constitute a significant percent of total faculty salaries (similar to SEIS and CLASS), experiences high per F.T.E. costs due to low F.T.E.

Analysis of Budget Variances

Table VII compares the expenditures for F.Y. 1996-97 with the budget for the same fiscal year.

Table VII
1996-97 Expenditures and Budget

	<u>Budget</u>	<u>Expenditure</u>
President	\$ 880,393	672,583
Academic Affairs	72,618,429	74,446,327
Administrative Affairs	17,006,144	17,672,484
Instructional & Information		
Technology	12,382,374	10,984,507
Student Affairs	13,774,664	14,354,164
University Advancement	1,459,110	1,901,692
SUG/EOP/Work Study	5,912,927	5,860,585
Reimbursements	<u>4,200,000</u>	<u>1,625,896</u>
	<u>\$ 128,234,041</u>	<u>127,518,238</u>

The expenditures for Instructional & Information Technology were 11.3 percent below the budgeted amount. Expenditures for University Advancement exceeded the budget by 30.33 percent. Reimbursements were budgeted 61 percent higher than the actual amounts received by the campus. Expenditures based on reimbursements for F.Y. 1995-96 were \$2,137,335.

These figures raise several important questions. For example, what was the basis for the 1996-97 budgeted amount of \$4,200,000? (Note that the budgeted figure for 1997-98 for reimbursements was \$5,000,000. This is three times the actual reimbursements for fiscal 1996-97). Also, how are spending priorities set? If Administrative Affairs and University Advancement had been held to their budget amounts, the Academic Affairs actual expenditures could have been increased by an additional \$1,108,922.

Comparable CSU Campuses

The *California State University Combined Statement of Revenues and Expenditures* (fiscal period) presents comparison figures for 22 campuses. The author has selected four comparable campuses based on F.T.E. This group of five constitute the mid-size institutions of the California State University.

Table VIII

F.T.E. 1996-97 College Year

Chico	12,476.6
Fresno	14,690.0
Los Angeles	14,034.5
Pomona	14,317.8
San Luis Obispo	15,825.4

Selected revenue and expenditure figures for fiscal years 1995-96 and 1996-97 are presented in the following table. The F.T.E. for San Luis Obispo is 10.53 percent higher than Pomona. Appropriations are 16.83 percent higher for San Luis Obispo. (The programs at the campuses are that similar in their Polytechnic emphasis). The disparity in funding stands out. The Fresno campus has 2.60 percent higher F.T.E., but appropriations are 9.92 percent higher than Pomona.

Table IX

Selected Revenues and Expenditures

	FY 1995-96		FY 1996-97	
	<u>Appropriations</u>	<u>Fees</u>	<u>Appropriations</u>	<u>Fees</u>
Chico	\$ 80,620,986	27,395,007	83,810,122	28,706,842
Fresno	95,166,042	35,829,316	100,655,152	35,684,026
Los Angeles	81,785,168	33,611,098	86,462,597	33,795,177
Pomona	87,575,949	35,190,555	91,573,872	36,251,876
San Luis Obispo	100,371,123	33,126,117	106,984,576	36,670,194

	FY 1995-96		FY 1996-97	
	<u>Instruction</u>	<u>Academic Support</u>	<u>Instruction</u>	<u>Academic Support</u>
Chico	58,036,934	10,525,310	61,007,882	11,073,511
Fresno	69,802,223	13,183,254	75,676,620	14,481,829
Los Angeles	63,118,309	10,304,783	66,278,112	11,456,678
Pomona	70,520,776	9,586,333	72,533,910	10,883,235
San Luis Obispo	73,055,607	14,849,698	80,715,743	16,498,063

Fresno and San Luis Obispo allocated 67 percent (F.Y. 96-97) of revenues to instruction and academic support. Pomona allocated on 66 percent (F.Y. 96-97). Appropriations increased for all 5 campuses for fiscal year 1996-97. The percentage increase ranged from 3.96 percent (Chico) to 6.59 percent (San Luis Obispo). Pomona's appropriations increased 4.57 percent.

The allocation for instruction increased for all five campuses for fiscal year 1996-97. The percentage increase ranged from 2.85 percent (Pomona) to 10.49 percent (San Luis Obispo). The four comparison institutions all increased instruction expenditures by a larger percentage increase than the appropriations increase. The increase in instruction expenditures plus

academic support ranged from 4.1 percent (Pomona) to 11.10 percent (San Luis Obispo). Pomona was the only campus for which the increase in instruction plus academic support was below the increase in appropriations.

Conclusions

The University Expenditure Reports provide the best source of information on spending priorities on campus. The University Budget should be reconciled with the expenditure report and variances should be explained. Faculty input in the decisions which lead to such variances is essential.

The analysis of the expenditure reports indicates that this university remains "state supported" not "state assisted". Ninety three percent of funds for F.Y. 1996-97 were derived from appropriations and fees over which Cal Poly Pomona has little control.

The wide disparity in program costs on Cal Poly Pomona is revealing. The Chancellor's and President's public support of teacher education is not evidenced in the budget reality of the expenditure reports for CLASS and SEIS.

The commitment of this University to teaching is not evidenced by the allocation of funds to Instruction. Cal Poly Pomona is at the bottom of the five comparison institutions when the allocation of new funds to Instruction and Academic Support is examined. The Academic Senate's insistence that faculty input is needed when spending priorities are established is a legitimate "beef."

While spending on faculty is and should be the largest single expenditure, faculty salaries and benefits constitute only 40.54% of the cost of a F.T.E. Efforts at cost containment should consider expenditures exclusive of Instruction and Academic Support.

