

1 *Increased use of private funds to support public higher education is essential, but private funding undoubtedly shapes the university in ways that challenge academic traditions, creating a new paradigm for financing the modern university.*

The Growing Role of Private Giving in Financing the Modern University

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Imagine working for an employer your entire career and finding that your starting salary was the highest you ever earned. Virtually every year, your salary decreased, until, at the end of a long career, you retire earning less money than you did during your first year of employment. Those who have worked in state-supported institutions of higher education during the last twenty years don't have to use their imagination to envision the steady and precipitous decline in state appropriations that currently are at an all-time low. As Zumeta (2004) says:

State support for higher education—which includes core operating support for public institutions, a total of some \$5 billion annually in state funding for student scholarships and grants, direct aid to private colleges and universities in some states, and funding for state governance operations—has fallen steadily as a percentage of personal income across all fifty states for more than twenty years. . . . Even counting tuition revenue, which has been growing rapidly, total funding for higher education per student has increased only sluggishly since the mid-1980s [p. 83].

Therefore, Hossler notes, “Many institutions have started to describe themselves as state-assisted rather than state-supported” (2004, p. 150). In fact, some would say public higher education has moved from the status of state-assisted to merely being state-located. Why state support for higher education has dwindled at an alarming rate is a source of debate (Alfred, 1996;

Thelin, 2004, 2009). But a monumental shift in funding for higher education has occurred nationwide.

Take, for example, California. Yudof (2009), in capsule form, offers a glimpse of the national problem as it is manifested in California.

In the 1980s, for example, higher education made up 17 percent of the state budget, and prisons accounted for 3 percent. Today those figures are 9 percent and 10 percent. Students, by and large, have been forced to pick up the difference because, when it comes to our core support, we have only two main sources: taxpayer dollars from the state and student tuition. When one decreases, the other almost inevitably must go up by an equal measure. In effect, while the state once provided a freeway to higher education, it can now only offer a toll road, with students paying more and more of the cost [p. A31].

In acknowledging that public funding for higher education has declined, McKeown (1996) posits the need to view a method for funding higher education that is enmeshed in a political process involving compromise: “Compromise will be necessary to preserve and improve the quality of public higher education and to accommodate the changing conditions of education in the new millennium.” Then McKeown asks a haunting question about reaching the lofty goal of quality and access as a social contract or governmental promise to its citizens: “Perhaps the promise will never be fulfilled, not because the goals were unworthy but because the goals have changed. Or, has the promise changed?” (pp. 84–85).

I assert that the promise of high-quality public education for everyone has changed, and I agree with McKeown when she says that the challenge before us is to develop “a new paradigm for higher education funding” (1996, p. 84). I am not optimistic that the new paradigm will include increased state support for higher education. In fact, it’s reasonable to think that the current global economic crisis, a recession that has been compared to the Great Depression, coupled with the federal bailout funds to the states, will fundamentally change higher education in ways yet to be seen. A new paradigm for higher education, I predict, will emerge from the shattered economy, and this new paradigm, whatever its final form, will include a renewed focus on increased private funding for public higher education because state support will not rise appreciably. But before I discuss the growing role of eleemosynary giving in funding the restructured university, I think it is useful to describe the current sources of funding for higher education, in part because there is often confusion about the economics of higher education.

Sources for Funding Higher Education

Up to this point, I have focused on state appropriations for higher education, but *in toto* budgets for higher education are composed of three other

sources of funding: tuition and fees; grants, particularly for sponsored research; and funds raised through charitable donations.

Tuition and Fees. First, and foremost, is state appropriations coupled with tuition and fees. I collapse state appropriations into tuition and fees because the two are inextricably linked. As Yudof noted, “When one decreases the other must inevitably go up by an equal measure” (2009, p. A31). Indeed, fees are often not discussed openly when debate rages about the reasons for increased tuition, but fees have become a significant addendum to tuition, often as a way to limit tuition increases. At one campus where I worked, all students were charged a “campus access fee.” A parking permit was issued in response to paying this mandatory fee. However, even if students did not own or drive a car on campus, they were required to pay the fee. An access fee by another name would be called a parking fee, but the virtue of a mandatory “access” fee for every student is that it brings in more revenue than a parking fee for just some students, and the moniker *access* is vague enough to cover a multitude of “access” issues.

In any particular year, when the state decreases funding for higher education by giving less than is needed to keep up with increasing costs, tuition and fees have been increased to help make up for the shortfall. *Help* is an important qualifier. Even though the outcry about astronomical increases in tuition and fees goes unabated, in fact tuition and fees, though indeed they have increased beyond the Consumer Price Index (CPI) during the last decades, have not filled the gap left by ever-dwindling state funds to higher education. In addition, increases in tuition and fees can have a counterproductive effect. The higher the tuition and fees, the greater the probability that enrollment will decrease because a portion of the students can no longer afford to pay the price of attendance.

Grants. The second source of revenue is grants, particularly sponsored research, and especially for research universities, but even in limited ways for comprehensive universities and community colleges. The term *sponsored research* includes federal government monies for TRIO programs, state grants, grants from foundations, and the like. Grants work well for research universities because the tremendous infrastructure needed to support heavy involvement and success in grantsmanship can pay dividends when researchers secure federal dollars and build their reputation to keep the research cycle going by winning more grants, which furnish further evidence that federal money is being spent productively, so that yet another grant can be secured.

Grant funding is also valuable for the university because of overhead costs. Most grants allow a certain percentage of overhead costs to be recouped by the sponsoring institution, and those overhead costs are helpful in replacing operating budget dollars that can now be used elsewhere. In addition, grants also allow grantees to hire people, buy goods and services, and generally stimulate the university economy. Alas, grants are highly competitive (Hossler, 2004) and friable. Misconduct in research

undertaken with the aid of federal grants can create havoc for an entire institution. The shifting fortunes of the federal dollar and the morphing of federal policies regarding research priorities can have a deleterious impact on one sort of lab and an entrepreneurial impact on another sort. At any rate, federal grant dollars are a significant source of income for research universities, and nonresearch grants (such as those competitive grants for TRIO programs) can benefit all colleges and universities, but for the most part federal grants based on research productivity are designed for institutions that produce doctoral students in the sciences.

Charitable Donations. The third source of funds, as discussed later, is raised through charitable donations, acquiring extramural support.

That's it.

There are no other sources of funding for higher education. Endowment income and enterprise income from properties treated as endowment are really only charitable contributions in another guise. And when the gap in funding widens between what is realistically needed to supply quality education and what the state allocates (plus tuition and fees), resources from the other two sources are used to help narrow the gap.

The third source of funding is my focus for the rest of this chapter because fundraising has become the *sine qua non* for all public universities. However, mine is a cautionary tale about the essential need to secure private funding for public higher education. I begin the tale with the benefits of extramural funding, but I end with painful realities about the limits of fundraising and possible implications for the academy as a whole when private money becomes critical to maintain public higher education.

The Value of Fundraising

The gap in funding that has been created “because the state is no longer a reliable partner” (Yudof, 2009, p. A31) is probably impossible to span by appealing for more state support, but fundraising can help span the gap in significant ways: by funding facilities and scholarships, and by furnishing undesignated funds.

Facilities. How do institutions of higher education acquire funds for new facilities? The state can appropriate funds, but as we have seen the state has had difficulty in allocating sufficient operating funds, much less resources for new facilities. (Or, more to the point, the state has had difficulty furnishing resources for maintenance and repair of existing facilities.) Nevertheless, states have either appropriated dollars for buildings or issued bonds for capital projects. Because capital projects for state universities are often prioritized (or based on political maneuvering—or both) and because state funding for capital projects is severely limited, it can take a decade or more to honor requests for new facilities. The process for seeking state support for a new building can often be moved along if a donor can supply a portion of the cost for the desired facility. Some states give preference to capital projects

that have matching funds from a private donor, often accompanied by naming rights. The needed building will be named for the donor, and the state partners with a private citizen to erect a new facility.

The naming of a building is certainly an advantageous method of getting new construction approved, but the naming of a school is an even bigger boon to a campus. The name for a building is generally calculated anywhere from 10 to 50 percent of the cost to construct the building. The name of a school, however, can be valued at twice the annual operating budget of the school.

The use of fees to support all manner of needs on campus is another opportunity to solicit private donations, even for buildings. Perhaps one of the most familiar projects in the modern academy that relies on student fees is the obligatory recreation center. Student fees are assessed, generally by the students themselves through the student senate, to fund a recreation center. However, naming rights for a recreation center allow the president to enhance the center.

A building can be an exciting addition to a campus, generating enthusiasm for the university, pride in the *alma mater*, and desire to attend on the part of prospective students. However, buildings require upkeep, and unless the occupants of a building generate sufficient income to offset operating costs, or the naming of a building generates sufficient revenue (as in an endowment) to fund the operating costs, the university's operating budget will be used for new costs associated with maintaining a new building—perpetually. As a footnote, most states do not include continuing funds for operating a building, so when the state funds a new building, in whole or in part, operating costs are not included.

Scholarships. Because the costs of higher education have steadily increased, often outpacing the CPI, university presidents seek ways to offset rising tuition costs by soliciting funds from private sources to award student scholarships. Of course, the absolutely best way to offer scholarships is through private endowments. Let's say a donor gives \$1 million for scholarships. Once endowed—often after one year—the corpus will yield about 7 percent earnings under normal circumstances, or about \$70,000. But to account for dips in the market, a prudent vice president for development, at the direction of the foundation board, will allocate 5 percent, or \$50,000, to fund scholarships, keeping back 2 percent for fluctuations in the market. Making a scholarship commitment for four years that is based on students meeting particular requirements to keep the scholarship means making a multiyear commitment without knowing what the market will yield in years two, three, and four of the commitment.

If the donor specifies particular requirements for the endowed scholarship (say, must be awarded equally to five business students majoring in finance who graduated from Sudwig County with a GPA of at least 3.2), the money may or may not be awarded completely. If, however, the donor does not specify particular requirements, the earnings from the corpus can be

used in a variety of cases to help satisfy students' financial needs. In fact, undesignated scholarship funds can replace institutional resources that are used to discount tuition, freeing up operating funds for other pressing needs. However, I may be a bit hasty in replacing operating funds in the form of institutional scholarships with the earnings from a donor's corpus. The corpus will not grow, so the earnings, at 7 percent, will continue to yield the same amount of money. As tuition increases, many (not all) scholarships are adjusted upward to pay for increases in tuition or a percentage thereof. In a steady state of 7 percent earnings, the scholarship will remain fixed but tuition will undoubtedly increase, making the scholarship less valuable economically over time. Either the number or the amount of scholarships declines or else the operating budget can be tapped to make up the difference between increases in tuition and steady-state interest returns.

In fact, any endowment that is used to start a scholarship or program—if the corpus of the endowment is never increased—will eventually require other sources of funding to support the scholarship or program as the costs of education increase. Take, for example, an endowment that yielded \$200,000 twenty years ago and was used to start an honors program. Initially, the earnings from the corpus yielded a happy surplus because the first class of honor students is guaranteed a four-year scholarship. Then the second-year students are likewise guaranteed a four-year scholarship. Attrition in the honors program is quite low, so the four-year guarantees begin committing much of the \$200,000, until all four classes of the undergraduate honor students are fully funded. (We haven't even added operating expenses for the program.) Twenty years later, tuition has increased substantially through a series of yearly increases, and the \$200,000 is no longer adequate to support the four-year cycle of scholarships. Likely, university operating funds will be tapped to bridge the gap between commitments and the available funds for the scholarships, and this gap will be filled by the university operating budget unless an ongoing effort has been made to acquire other funds for the honor students' scholarships. In short, what was hailed as an important gift in establishing a program loses its economic luster over time. (Throughout the twenty years, the program's operating budget has been increased, even if only meagerly.) In fact, such gifts can become a liability because the university operating budget is tapped to support a program that did not foresee the need for ongoing funding to support a worthy cause.

Undesignated Funds. Perhaps the most delicious donations come from donors who simply say, "Here's my gift. Use it as you see fit." Those funds—unrestricted by specific requirements for their use—allow a president flexibility in funding various projects. Such funds can be used as seed money for a project or as supplements for pressing needs or new opportunities that require one-time funds. However, typically a donor who makes a significant investment in the university wants a significant say in how the money is used—sometimes down to the color of carpet or the design of a new stadium.

The Cautionary Part of the Tale

I have already noted various cautions related to acquiring external private funding—the problem of maintaining and repairing a building named after a generous donor, the need to think providentially about supplementing the earnings from a corpus to maintain ongoing scholarships and programs, the difficulty of securing unrestricted funds to prime other projects or fill gaps in revenues—and a theme emerges from those cautions: the operating budget can be strained over time as the normal costs of maintenance are incurred or the increasing costs of keeping a commitment outpace the earnings from a corpus. Therefore, fundraising becomes a self-perpetuating activity, and I have not even discussed all manner of stuff that is part of the arms race in higher education—Jumbotrons, scientific gadgets for laboratories, bigger and better athletic facilities, computers and all that is required to support them, electronic resources for libraries, and so on. Fundraising is essential, but as with all things human, fundraising is not the panacea for the states' historical and ongoing practice of reducing funding to state institutions of higher education. Fundraising supplements what has not been given, but at this point in time resources garnered through fundraising have supplanted needed state appropriations, and by supplanting state appropriations private funds must be given greater consideration in how higher education operates.

Conclusion

I return to the need for a new paradigm for funding public higher education. I do not pretend to sketch the paradigm, but I have shown that private funding to support public higher education will be essential. The new paradigm will undoubtedly have significant implications for higher education, and I pose a series of questions to suggest what some of the implications will be.

The Role of the State. At present, state-assisted (or state-located) institutions of higher education are governed by an array of state rules and regulations because states furnish taxpayer dollars to support higher education. Those rules and regulations can be a disservice to institutions that seek enrollment, partnership, and programmatic opportunities that are currently disallowed or heavily encumbered by state laws. For example, in many states for a university to develop a new degree program it must cut a significant yardage of red tape, an exercise in scissorship that private institutions can often avoid because they are not receiving state dollars (or in some cases, not many state dollars). Consequently, privates have a competitive advantage. Because states are unable or unwilling to support public higher education, should a new calculus be devised that relaxes the bureaucratic grip on universities so that they too can be competitive with privates? If states do not develop a new calculus but persist in asserting, regardless of their share of

stock in higher education, that they have a duty to protect taxpayer dollars regardless of the proportionate benefit the dollars accrue, it seems reasonable to foresee a continuing competitive disadvantage for public institutions of higher education, perpetuating a downward economic spiral.

Indeed, although I have focused on public higher education to the exclusion of community colleges, I would be remiss if I did not point out the huge economic benefit in terms of low tuition students receive by attending a community college. As community colleges become even more attractive because of their tuition vis-à-vis universities, it is not hard to imagine that universities may be transformed into upper-division and graduate institutions, increasing the need for raising external funds for scholarships and fellowships.

A Business Model for the University. Academics are often offended when the university is discussed in terms of a business model. The concept of the corporate world as typified by the term *business model* is distasteful to them because academia is embodied in the world of ideals, which should not be sullied by talk of business. The mismatch between the reality of essential business functions a university performs and their relationship to academics is in and of itself a major problem when economics is such a powerful driver that is transforming *how* the university operates. Increased use of private funds to fuel the university's economy, therefore, raises various questions about university operating budgets. I focus on what I perceive is a major economic issue related to the essence of higher education: What price quality?

We use the term *quality education* as though it is a monolithic term. It isn't. Just as a person can purchase either a quality Ford Taurus or a quality Mercedes-Benz, students can purchase a specific type of quality education. Is it not naïve to think that a certain level of quality does not have a price tag? Isn't quality defined in relationship to the make and model of the university? Shirvani (2009) raises questions about the price of status in higher education, which is linked with the larger question of quality.

Talking about quality in the abstract is not a productive approach to determining how quality is defined at a particular institution, and the definition, if honestly be told, will have quantitative (including an economic price tag) and qualitative measures. Unfortunately, some in the academy have often dismissed quality issues related to economics.

The President's Role. I recently heard a candidate for an academic administrative job say, "A president's role is to bring in the money; a provost's role is to spend the money." Of course, such a view is naïve at best, and dangerously misleading at worst, as if a provost controlled the entire university budget. However, the part about the president's role raises questions about the qualifications for presidents as fundraising takes on an ever-larger part of presidential duties. To what extent do presidents need to be academics? Why not limit presidential duties regarding academics and let the vice president for academic affairs handle almost entirely the academic

side of the house? Should university presidents in the new economy be required to pass some sort of litmus test regarding fundraising skills, if fundraising is a vital part of presidential duties? (Why wouldn't vice presidents for development make ideal presidential candidates?) Could it be that presidents will no longer be required to have earned a doctorate—or have earned a yet-to-be developed doctorate in presidential duties?

The Faculty's Role. Perhaps imperceptibly, but with growing angst, faculty perceive that their role has changed as the economic realities of higher education make budget tightening a reality. As the idealism of the life of the mind is challenged by the bottom line, faculty discontent is aroused, especially regarding tenure as embodied in tenure and tenure-track positions and shared governance. The elephant in the room is tenure, and there may be no gingerly way to ask whether we can afford to maintain a tenure system that does not support agility in a fluctuating labor market apparently demanding programmatic changes in a short time. This question is important because the largest percentage of the budget of any state-supported institution of higher education is dedicated to salaries and benefits (Chronister, 1996). Fukuyama (2009) believes, "The freedom guaranteed by tenure is precious. But it's time to abolish this institution before it becomes too costly, both financially and intellectually." Will the sheer weight of economic necessity outweigh arguments about the "preciousness" of tenure? If so, will labor unions have an increasingly important role in organizing faculty labor on behalf of an old paradigm of work that appears to be at odds with the modern academy? Will shared governance be transformed so that decisions about how the academy operates are less driven by governance models that require faculty, staff, and students to have a voice in how the university operates?

In addition, tenure is solidly welded to shared governance. This does not necessarily need to be the operational paradigm regarding shared governance. Like staff, faculty can be engaged in decisions about how the university functions, without the benefit of tenure. Clearly, however, the role of faculty in shared governance would change, because without tenure faculty members would have to adopt a new approach to shared governance that would likely require a more tempered and nuanced view of their other colleagues on campus (staff and administrators). In most cases, this new view would entail a greater focus on teamwork and the corporate good.

If it is the case that the person who holds the purse strings determines how resources are spent, what will increased reliance on private donors yield regarding how public higher education is shaped? I have suggested possible changes the academy might be faced with as public institutions of higher education rely more and more on private funding. However, whether my suggested changes come to fruition is not the major point. What is irrefutable is the fact that increased private investment in public higher education will change the academy because donors give to promote their vision of the academy, and if their vision matches existing needs as the university sees those

needs, so much the better. If not, we'll take their money and adjust our vision to theirs—which we already do.

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