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Common Faculty Questions and Misconceptions about the CU Budget, and Responses (by the ASC Budget Committee, October 2020)

1. **The General Fund vs. overall Budget.** We often hear that CU has an almost $2billion budget. But we often don't think about the fact that a very large portion of that is dedicated spending streams (restricted gifts, contracts, grants, self-funded auxiliaries) that can only be spent on the specified purpose. Our General Fund is much smaller than that. Don't confuse the notion of "budget" (spending authority, spending planning) with "available general fiscal resources" (the General Fund). So when you hear that the state has cut our funding, but initially think "the state only provides 4% of the budget, so why is this a major problem?" keep in mind that the state portion of the general fund is significantly higher.
2. **Base Budget vs. incremental budget increases.** Right now, the budget each school and college gets each year is a set, continuing amount that rolls over from year to year – if you got $20m last year, you pretty much automatically get $20m this year. If we get growth in revenue, then that additional revenue is doled out to the various schools and colleges as an additional continuing amount. So from one year to the next, A & S might have $170m in continuing budget, then have that incrementally increased to $172m the next year due to higher campus revenue (which is expected to continue indefinitely into the future). The *base* budgets are *not* re-evaluated or re-calculated every year (or really ever, at least recently). So any fights we have over budget are currently over the 0-3% increases that are available in a given year, not over base funding. We don't say things like "let's drop A & S to $167m and give $3m more to Business, out of the base continuing budget" (though we certainly could, and the possibility of doing such general based reallocations is being discussed at the Campus level right now).
3. **"The Graduate School has lots of money."** Many faculty think the Grad School pays TA and GPTI salaries, benefits and tuition waivers, but in fact the College of A &S (or other schools and colleges in their cases) does that. A very significant portion of A & S' budget is dedicated to this expense.
4. **"Sponsored research generates a net budget surplus."** The campus spends more to support research than the ICR we get (about $17 million in unreimbursed campus costs in the most recent FY). See for example http://web.mit.edu/fnl//volume/295/zuber.html. Even though the ICR funds go to Central Campus, they do not fully cover the costs of research compliance offices, contracts and grants functions, maintenance and upkeep of labs and other research facilities, keeping the lights on in those labs, health and safety, etc. Sponsored research therefore does not subsidize other campus activities. Of course research grant activity provides many other benefits to campus beyond the ICR it brings in. Our research

reputation affects the students we attract, the tuition we can charge, and possibly the amount of state support we receive.

[4a. **“So why do the campus and the deans value large amounts of research money so much?”** Because it is crucial to our existence as an R1 university. [There is also the fact that many research costs are fixed (labs are already built), and if there’s no grant, there’s no ICR to cover the costs of maintaining those labs, and we have to start using general fund dollars.]

[4b. **“Why not charge more ICR on grants?”** This must be negotiated with and approved by the Federal Government. They prefer to keep ICR lower rather than higher. So should we, in reality – the Federal funding for research is a fixed amount each year, and the higher percentage of that funding that goes to ICR, the less can go to actual direct research expenses, so there are fewer grants to go around and less research gets done.]

5. **“The Deans have lots of fungible money.”** Faculty often don’t realize that the budget of a unit such as Arts and Sciences is overwhelming made up of fixed costs – once you account for salaries, benefits, grad student salaries and tuition waivers, departmental operating expenses, DA-ICR pass-throughs directly to departments, etc. etc. there’s very little left.
6. **“There’s lots of temporary money floating around in the Colleges.”** Faculty often aren’t aware that even things like L & R (Leaves and Replacements) money in the College of A & S is actually just permanent budget money for faculty lines that isn’t being spent in a given year due to sabbaticals or similar things. There’s not some “extra” temporary money of varying amounts coming to the Dean every year automatically on top of continuing budget allocations.
7. **“College-level administrative costs are bloated**.” Faculty often don’t stop to consider that almost all the high-paid administrators at this level are actually faculty themselves, whose salary is a faculty salary. So the only real “cost” for those faculty to serve as administrators is their administrative stipend and the cost of course releases. If their positions were eliminated, they would just go back to their departments. Otherwise admin cost is mostly in financial services, admin assistants, and a couple of assistant deans. This is not to argue that perhaps we shouldn’t eliminate an assistant dean here or there, but the potential cost savings is low at the school/college level.
8. **“The budget is rigidly columnar.”** This obviously contradicts the misconceptions in #5, but is also widespread at the moment. The assumption is that a 5% budget cut will go straight down to every speed type, basically. This can be a negative assumption (“you’re going to cut my start-up funds by 5%”) or a positive one (“you’re only going to cut my faculty travel account by 5% -- thank goodness” [when in reality the account is eliminated for FY20-21 in A & S]). Cuts are actually a good deal more flexible than this – it’s just a 5% cut in the overall College budget that is being imposed.
9. **“The Campus isn’t bound by contractual obligations.”** This is a common fear right now – “you’re going to cut my start-up that you agreed to when I was hired two years ago!”. Almost all cuts at the moment involve future spending commitments, and we’d be sued if we started reneging on contractual obligations.
10. **“Grad students are an unalloyed good, the more of them the better.”** There is a widespread failure to appreciate that grad students are expensive to produce as finished products, especially PhD students. Their classes are small, and are all taught by T/TT faculty. They require intensive faculty mentoring. Research facilities have to be maintained to allow them to complete their PhDs. We waive their tuition as TAs and

GPTIs. We can't teach them in classes of 500 students, taught by an Instructor, with grading done by Canvas Quiz function. The costs of graduate student education are subsidized by undergraduates. Yes, grad students teach for us, but we could hire instructors to teach more classes for less money, without tuition waivers, and the same could be said for RAs vs. hiring a temporary research assistant. If we take on enough new grad students, we'll go broke and put ourselves out of business.

11. **"More faculty are better."** As with grad students, there's a widespread failure to appreciate the marginal costs of a new faculty member, as opposed to hiring an Instructor to meet additional student demand. That new faculty member cuts into available graduate student funding, for example, in a zero-sum world. There are research costs associated with the faculty member which have to be subsidized. To the extent that ICR doesn't cover actual research costs, every new faculty member is putting us further into subsidy-land. See #4 – hiring more faculty doesn't generate more money. If we hire enough new faculty, we'll go broke and put ourselves out of business.
12. **"We could cut Athletics to save money."** There is a wall between Athletics income and expenses and Campus income and expenses. If Athletics runs a deficit, Campus doesn't just shift money to Athletics, it actually makes a loan to Athletics, as if it were a separate entity. So cutting Athletics won't produce any direct savings for the Campus, other than the cost of the loan, which is paid back with interest.
13. **"We could use our Endowment funds to deal with the current situation."** The Endowment is unfortunately far smaller than at Ivy League institutions ($1.5b for the entire CU system, $698M for Boulder), so doesn't generate enough interest income (especially in weak economic years) to get us out of the problem. Four percent annual return produces $58 million divided between the four campuses ($24.8M to Boulder for FY21). And since that income is reasonably predictable, it is already allocated to things like financial aid, buildings, and endowed chairs. There is also not a single "endowment," but rather many different individual accounts. Most individual endowments are highly restricted through gift agreements with donors. To the extent that there are unrestricted funds, if we used them to cover current debts, they would cease covering the planned expenses they were already covering. In other words, Endowment income is not a slush fund that comes in on top of budget every year – it is already included in budget and spending projections.
    [12a. "What about the Principal?" We don't want to use the principal of the endowment (i.e. permanently reduce its size) to address a temporary funding shortfall. That's a basic principle of institutional/non-profit fiscal management, where we expect to be around a long time.]
14. **"Can we raise tuition?"** Tuition is approved by the Regents and capped by the state (for residents), so CU-Boulder can't unilaterally do anything to raise tuition. The Regents are especially touchy concerning in-state tuition. We also operate in a market for higher education, and raising tuition above our competitors (especially in tight economic times) would likely result in a net loss in income as students decide to go elsewhere.
15. **"Why don't we have a model where tuition generated by each unit automatically returns to the unit?"** We have some functions that it is more efficient to cover at the System level, and others at the overall Campus level. Since those offices don't have students that generate tuition, some money has to go out of tuition-generating units to fund those operations. It would be very inefficient if we had every College and School

run its own admissions process, for example. So all tuition revenue will never be returned to units. In addition, some units do subsidize other units – this occurs internally to Colleges and Schools and across them as well. We're not a business, so all sub-units don't have to be generating "profits", and we recognize that some types of education are inherently more expensive than others (a common example being the individual instruction model needed in Music, or the close supervision needed in lab classes).

That said, the ASC Budget Committee does believe that both internally to A & S, and across the Colleges, the continuing yearly base budgets should be reviewed and possibly reallocated (see #2). Base budgets are based on conditions in place years or even decades ago in some cases, and they have remained relatively stable over time, with only yearly incremental increases calculated on the base. Meanwhile, enrollments have increased or declined dramatically in some areas, and instructional and research technologies have changed markedly in some cases.

16. **"Can we ask the state for more money?"** In 1992 Colorado voters passed the TABOR (Tax Payer Bill of Rights) Amendment. This requires taxpayer approval for all tax increases. It also says in the absence of that approval, state spending can only increase year to year by the combination of population plus inflation. So Colorado state finances are quite tight, and higher education has been gradually losing out over the years to more politically powerful concerns such as K-12 education funding. Most insidiously, the TABOR bill included a "ratchet effect" which says that the population plus inflation spending limit is to be calculated against the previous years' spending. So if we have a recession and state income drops, it doesn't then go back to the level prior to the recession and continue increasing by population growth plus inflation. Instead, it basically starts over, from the new lower baseline established by the recession-era spending. So in fact Colorado state spending has not even kept up with population plus inflation since 1992, and politicians have no taxpayer-free way of addressing that problem. This largely explains the decline in state contribution to the CU general fund over the last 30 years.

For more information, see especially ***College and University Budgeting: A Guide for Academics and Other Stakeholders,*** by Larry Goldstein.

Glossary of key terms:

Auxiliary income: this is money that comes from campus services provided to users. The most important examples are Housing and Dining Services (and within Athletics, things like money generated from ticket sales). Many of you may know of these as Fund 2X speedtypes.

Budget: this term refers to the administrative process whereby all sources of income are tracked and spent. It includes making sure that Restricted Funds are spent as intended, and also planning how to allocate and spend unrestricted funds. CU does not in reality have a single "budget" if this is conceived as a single block of income to be allocated towards all expenses. Rather, there are thousands of restricted funds, each of which is in effect a semi- or fully-self-contained "pass through" of funds – money in, money out. A research grant is a classic example of this, as are undergraduate fees. Then there is the General Fund, which more closely resembles what a typical household would think of as its "budget": a collection of income and expenses.

Budget increase/Incremental Budget increase: due to increases in student population, and income increases, the money available for use as Continuing Budget increases in many years. This money is assumed to be a permanent increase, and it is then made available for allocation to individual expenses, as part of the Continuing Budget. This small incremental addition to the budget is intensely contested among many potential beneficiaries.

Continuing Budget/Base Budget/Permanent Funding: Because CU's base income is fairly predictable year-to-year, and because complex institutions need stability for planning purposes from year to year, the "permanent" income is minutely allocated to hundreds of units and thousands of individual speedtypes, and this amount rolls over each year, with some minor adjustments. So unlike many single households, CU does not re-evaluate its spending each year "from scratch". It's easy to see why this would be impossible, from a complexity and human resources perspective, but it's also easy to imagine that some elements of the budget necessarily escape adequate scrutiny over time as conditions change. Note that much of this money is completely spoken for (individual faculty salaries). Other much smaller parts of it are discretionary: the Dean has a "start-up funds" continuing budget item. This money is then allocated each year via negotiation to that year's start-up packages. When a package concludes after 2-3 years, the money is then available for another start-up package.

DA-ICR: Department Administration Indirect Cost Recovery. This is the portion of ICR that is returned to departments, to allow them to cover their local indirect costs for supporting research. While campus covers costs of things like building and maintaining labs and paying to keep the lights on, costs for financial administration of individual grants are normally at the department level, for example. A fixed portion of overall ICR costs is returned to departments. See: https://www.colorado.edu/ocg/departmental-administration-indirect-cost-recovery-da-icr-program

General Fund: unrestricted income that can be used for general campus expenses. This money is generated from tuition and state government allocations primarily. Many of you may know of these as Fund 10 speedtypes.

ICR: Indirect Cost Recovery. These are charges added to grants. The charges are added to the direct research costs, at a rate of 53.2%. This money is intended to partially recoup the costs of things like building and maintaining the labs where the research is done, funding the personnel to manage the finances on the grants, and so forth. See: https://www.colorado.edu/ocg/indirect-cost-fa-rates.

Restricted Fund: any source of income that restricts how that income can be used. This can include contracts, grants, gifts, and money from auxiliary sources. These funds make up a very large portion of CU's overall income and spending each year. Because of the restrictions on the money, it cannot be moved to the General Fund to cover deficits. Many of you may know of these as Fund 30 and 31 (contracts and grants) and Fund 34 (gift) speedtypes.

Speedtype: a particular fund of money, designated for a specific purpose. Individual departments have their own speedtype(s), as do individual grants, individual endowments, etc. etc. There are thousands of these on the campus. See 'general fund' and 'restricted fund'.

Temporary Funds: these consist largely of money from the Base Budget that is available on a temporary basis because it is not being spent on the budgeted item. The classic example is Leaves and Replacements (L & R) money in a College. Some faculty are always on leave of some kind, so their salary doesn't need to be paid that semester. The money is then available to be spend on a one-time basis for other expenses that semester. Obviously these funds can't be re-allocated to some continuing budget need.