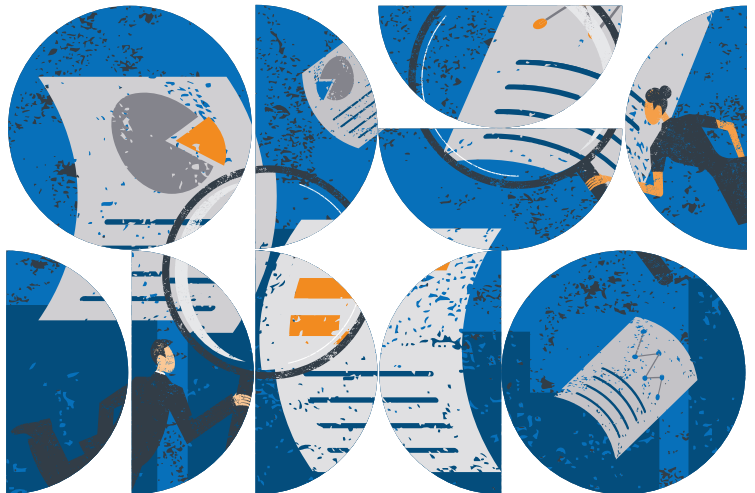




# Increasing Central Fungible Dollars

Executive Tactics to Secure Funding and Garner Buy-In for Strategic Priorities

Business  
Affairs Forum



## Funding Growth in an Era of Tightening Budgets

Colleges and universities are increasingly pursuing bigger and bolder goals. The aftermath of the recession and unfavorable demographic shifts have combined as a serious threat to traditional business models. Ensuring future growth and success will require most campuses to make significant strategic investments in themselves to recalibrate offerings and serve a wider student population.

Planned strategic investments vary by size and type at each institution. However, all will require significant capital. And unfortunately, higher education has historically struggled to adequately fund important strategic investments, especially compared to other industries. Worse yet, most colleges and universities relied heavily on enrollment growth to fund strategic priorities—an unsustainable approach as tuition revenue slows or even declines at many institutions.

To help institutions fund critical investments needed to support growth and expand mission, this briefing details eight tactics for increasing central fungible dollars to deploy against strategic priorities. Tactics are organized into four categories.

### **Reallocating Existing Dollars**

Highlights the pockets of resources in the academy that can most readily be reprioritized and shifted toward large initiatives.

### **Growing Highly Fungible Revenue Streams**

Explores new revenue streams that could directly support top priorities.

### **Putting Strategic Dollars to Best Use**

Guides business executives to on ensuring strategic investments have the highest possible ROI.

### **Winning Buy-In for Strategic Savings**

Helps business executives garner buy-in for financial decisions from internal and external stakeholders.



# The Gap Between Strategic Ambition and Strategic Funds

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# Big Aspirations, Bigger Price Tags

Colleges and universities are increasingly pursuing bigger and bolder goals. On one hand, the aftermath of the recession and unfavorable demographic shifts have combined as a serious threat to traditional business models. Ensuring future growth and success will require most campuses to make significant strategic investments in themselves to recalibrate offerings and serve a wider student population. At the same time, many institutions deferred important strategic investments during the worst of the financial crisis, forcing leaders to catch up on several years' worth of priorities.



## Infrastructure to Grow

Building classroom and residential physical capacity for more students, and scaling a more efficient business and IT infrastructure to support a larger institution.

**\$4M**

New dorm

**\$23M**

New science facility

**\$60M**

Visual arts center

**\$90M**

6,000-seat events center



## Competitive Advantage

Attracting both students and top faculty and staff talent to campus.

**\$5M**

Increase faculty salaries

**\$17M**

Campus welcome center

**\$95M**

General campus facility upgrades

**\$500M**

Student employment program

Planned strategic investments vary by size and type at each institution. However, business executives and academic leaders across the industry are primarily focused on the four categories of investments detailed below.

While the goals and scope of each strategy differ, all will require significant capital. Even on campuses that have achieved consensus on where to invest, the source of funding often remains unclear.



### Technology Enhancement

Upgrading software and hardware to meet evolving teaching, research, and business demands.

**\$750K**

Upgrade classroom technology

**\$3M**

Retention bonus for critical IT contract staff

**\$25M**

New enterprise resource planning (ERP) system

**\$40M**

Campus-wide IT infrastructure upgrades



### Mission Expansion

Exploring new markets with launch of new programs and new research.

**\$1M**

Launch online physician assistant program

**\$15M**

Create center for innovation and entrepreneurship

**\$100M**

New bioinformatics program

**\$1B**

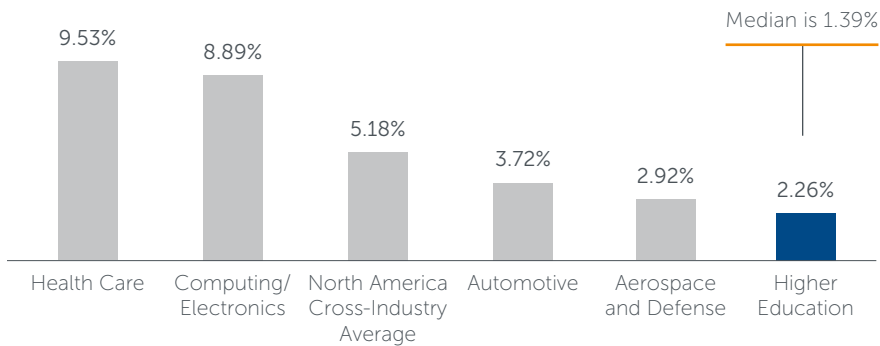
Science master plan (expand programs and infrastructure support)

# Underfunding “R&D”

Unfortunately, higher education has historically struggled to adequately fund important strategic investments. This is particularly apparent in comparison to other industries. Across all industries in North America, organizations invest an average of 5.18% of revenue into strategic research and development. Yet, colleges and universities invest only 2.26% of revenue into strategic priorities, on average.

## R&D Spending as Percentage of Revenue

By Industry

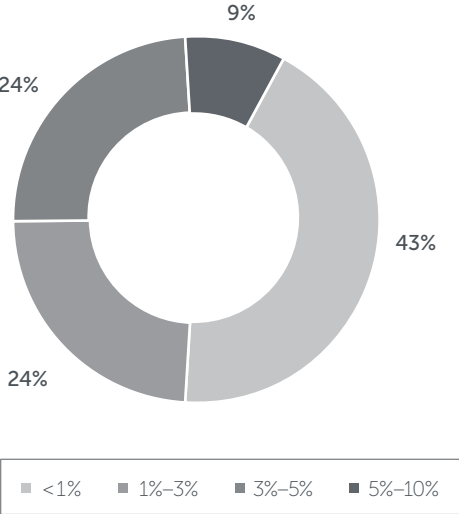




Moreover, even this figure is arguably misleading. The median institution invests only 1.39% of revenue into strategic priorities, and more than 40% of institutions invest less than 1%.

### Percentage of Revenue Dedicated to Strategic Priorities

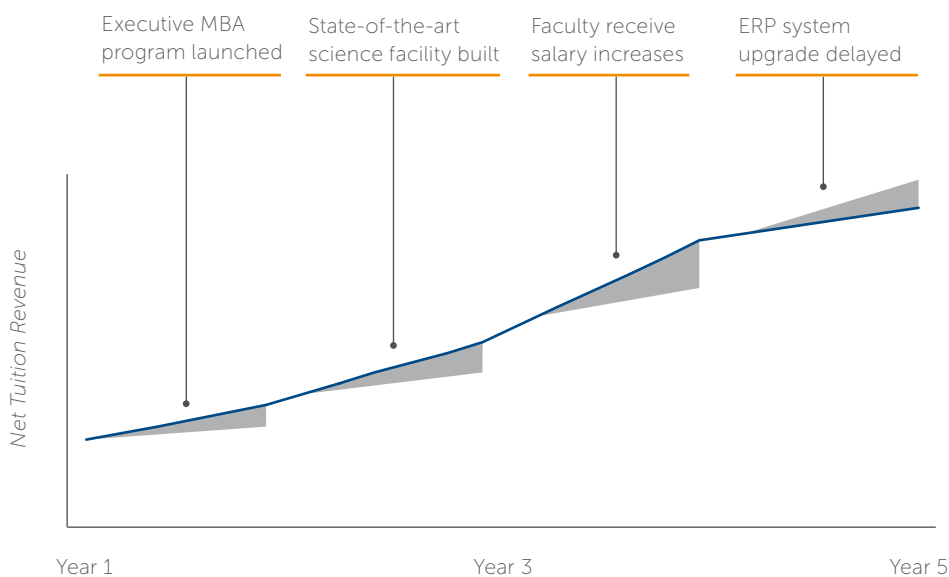
Breakdown of Higher Ed Institutions



# Central Fungible Dollars Harder to Come By

The first, and likely most damaging, factor affecting investment in strategic priorities is decelerating tuition growth. Across the 1990s and early 2000s, most colleges and universities funded strategic priorities primarily through enrollment growth. With tuition revenue growing rapidly across that period, institutions were able to raise individual unit budgets and still set aside additional resources for larger investments, such as new programs or capital projects. However, as tuition is now slowing or even declining at most institutions, tuition growth alone is not providing the resources necessary to fund high-priority initiatives.

## Representative Institution's Tuition Growth Over Time



Shaded portion represents gap between 4% growth rate and actual growth rate

In addition to slow tuition growth, institutions currently face four other significant challenges to funding strategic priorities:

### **Borrowing nearing its limit**

With interest rates at historic lows, many institutions have used debt to fund select strategic priorities. However, institutional debt per student at both public and private institutions has grown dramatically. Average debt service payments per student have increased 86% across the last decade, and many institutions are nearing or have hit their debt limit. Moreover, most financial analysts project interest rates will begin to rapidly increase in 2016. Therefore, debt is quickly becoming a less reliable source of strategic funding.

### **Competing demands on central strategic dollars**

Strategic priorities are not the only commitment on central administration resources. Business executives must evaluate competing (and increasingly urgent) demands for limited dollars, such as deferred maintenance and expanding compliance requirements.

### **Transition to responsibility centered management (RCM) or hybrid-RCM budget model**

Many colleges and universities are considering or in the midst of a transition to an RCM or hybrid-RCM budget model. Every budget model has inherent advantages and disadvantages. One of the primary and best-known disadvantages of RCM is allocating the vast majority of revenue to the units, leaving central administration with too few resources to fund large strategic investments.

### **War chest spent down across the recession**

During the worst of the financial crisis, many institutions had to tap into strategic reserves to balance their budgets. So as campus leaders pursue important strategic initiatives, much of the funding set aside for that purpose has already been spent.

# Executive Tactics to Secure Funding and Garner Buy-In for Strategic Priorities

To help institutions fund critical investments needed to support growth and expand mission, this briefing contains eight tactics for increasing central dollars. Tactics are organized into four categories:

- › **Reallocating Existing Dollars** highlights the pockets of resources in the academy that can most readily be reprioritized and shifted toward large initiatives.
- › **Growing Highly Fungible Revenue Streams** explores new revenue streams that could directly support top priorities.
- › **Putting Strategic Dollars to Best Use** guides business executives on ensuring strategic investments have the highest possible ROI.
- › **Winning Buy-In for Strategic Savings** helps business executives garner buy-in for financial decisions from internal and external stakeholders.

Additional information and supporting materials can be found on the Increasing Central Fungible Dollars resource page at [eab.com/baf/fungibledollars](http://eab.com/baf/fungibledollars).

## Reallocating Existing Dollars

### Tactic 1

Iteratively migrate to a gainsharing policy that governs unit surplus—page 14

### Tactic 2

Direct portion of savings from vacant lines to central fund—page 18

### Tactic 3

Gradually increase percentage of budget dedicated to strategic priorities—page 22

## Growing Highly Fungible Revenue Streams

### Tactic 4

Tie nontraditional revenue streams to strategic funds—page 26

### Tactic 5

Optimize auxiliary contribution by increasing efficiency and growing operation—page 30

## Putting Strategic Dollars to Best Use

### Tactic 6

Prioritize executive-driven investments by developing total cost forecast—page 34

### Tactic 7

Structure seed funding to minimize financial risk and make fund self-sustaining—page 38

## Winning Buy-In for Strategic Savings

### Tactic 8

Communicate appropriate levels of financial information to boards and faculty—page 42



# Executive Tactics for Increasing Central Fungible Dollars

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# Tactic 1

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## Iteratively Migrate to Gainsharing Policy That Governs Unit Surplus

The first tactic to create more central fungible dollars is to migrate to a gainsharing policy that governs unit budget surpluses. This tactic represents a significant opportunity to reallocate resources at most colleges and universities. Many institutions utilize a 100% carry-forward policy, where units retain all year-end surpluses. However, this often results in units accumulating massive reserves while the center struggles for funds.

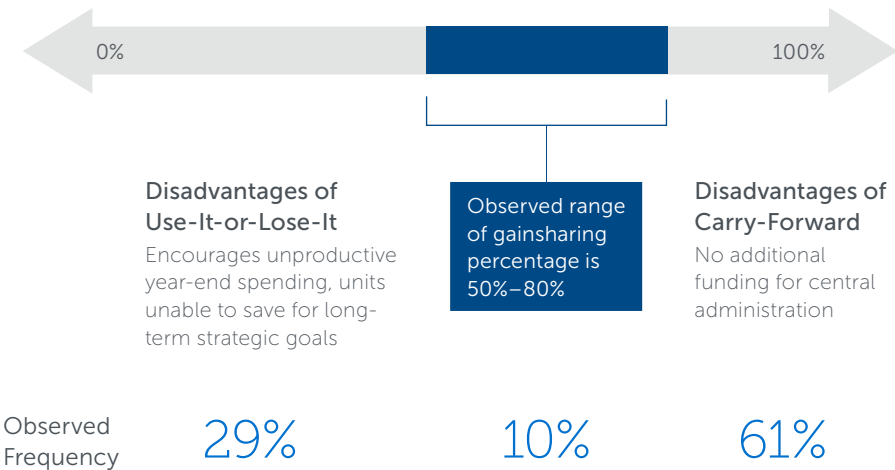
Conversely, other institutions manage unit budgets with a use-it-or-lose-it approach that pulls all year-end surpluses to central administration. This policy often creates a perverse incentive for unit leaders to spend down the balance of their budget at the end of the year to avoid losing funds.

The optimal middle ground between use-it-or-lose-it and carry-forward is gainsharing. Under this approach, units split any budget surplus with central administration. This “compromise” method benefits both units and the institution and combines the advantages of the two more extreme approaches. Because units retain a sizable portion of their surplus, they are incentivized to find cost savings and better steward resources. Likewise, because a portion of surplus returns to the center, the institution can grow much-needed funds for larger strategic priorities.



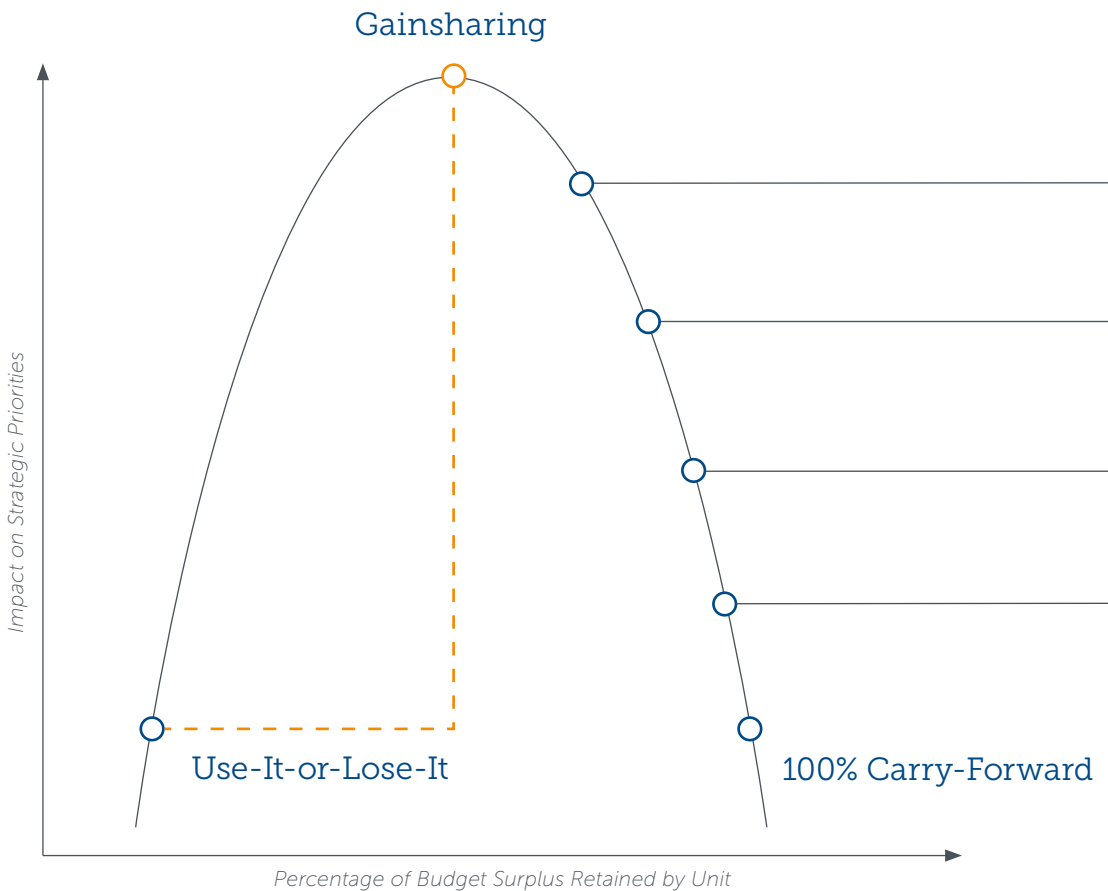
Despite the advantages of gainsharing, only 10% of institutions use a form of this practice to manage academic unit surpluses. Approximately 29% of institutions employ a use-it-or-lose-it approach, while 61% use a carry-forward approach. Note, this 61% includes institutions utilizing RCM budget models, who by definition use a carry-forward approach with academic units. However, some institutions with RCM budget models have successfully used gainsharing with administrative units to encourage savings in those areas and reallocate some resources back to central administration. Therefore, gainsharing is a strategy applicable at all institutions, even if not every unit.

Percentage of Budget Surplus Retained by Unit



Because gainsharing incentivizes units to find cost savings while also returning a portion of those savings to the center, it is the approach that typically delivers the most resources to central administration and ensures the most strategic use of funds. However, it also represents a meaningful budgetary change that faculty and staff may resist. The best strategy for transitioning to a gainsharing program and minimizing pushback depends on how an institution currently manages unit surpluses.

The first transition path starts from a use-it-or-lose-it policy. Institutions beginning here can largely “flip the switch” and transition to gainsharing immediately. Because units will now retain a portion of money they previously returned centrally, faculty and staff typically accept the change to gainsharing.



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The second transition path starts at 100% carry-forward. Obviously, units will resist returning any portion of surplus dollars they currently keep in full. Unlike the first transition path, this second path must be gradual and deliberate— institutions must pursue smaller, incremental changes that do not overwhelm or disconcert unit leaders or faculty. To help institutions plan a gradual and acceptable transition, the graphic below lays out a series of incremental steps or milestones between 100% carry-forward and gainsharing. Institutions can move up the curve one step at a time, implementing minor changes to their policy every few years.

#### Carry-Forward with Restrictions

Unit leaders at the **University of Denver** must formally submit a proposal to the provost or vice chancellor for financial affairs to request use of carry-forward funds. Proposals must indicate how investments made with carry-forward funds will further the university's mission.

#### Carry-Forward with a Cap

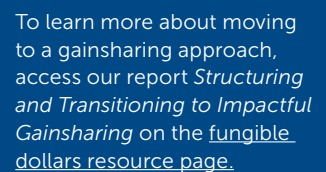
Units at **Simon Fraser University** may retain only up to 9% of their total operating budget in carry-forward funds each year.

#### Carry-Forward with Commitments

While units at **University of Maryland, Baltimore County** carry forward 100% of year-end surpluses, units (not central administration) must offset any cuts to state appropriations using carry-forward funds.

#### Carry-Forward Held Centrally

Units at the **University of Kansas** may carry forward 100% of year-end surpluses, but money is held centrally. Deans must request access to central funds but have full control over spending decisions.



To learn more about moving to a gainsharing approach, access our report *Structuring and Transitioning to Impactful Gainsharing on the fungible dollars* resource page.

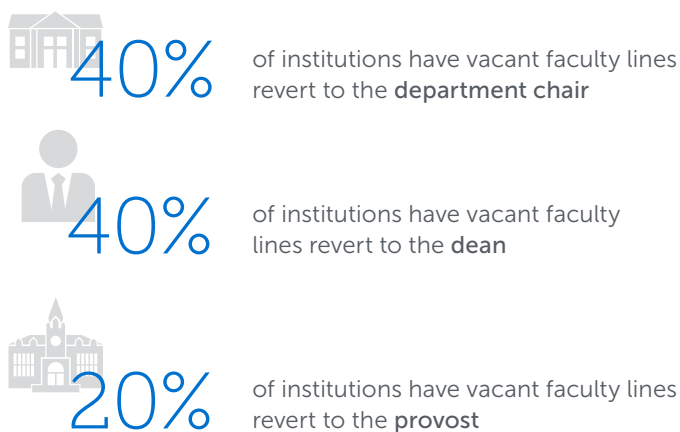
## Tactic 2

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### Direct Portion of Savings from Vacant Lines to Central Fund

The second tactic to increase central strategic resources is to reallocate a portion of salary dollars tied to academic unit positions (particularly faculty) as they become vacant. Clearly the most impactful approach would be to reclaim vacant salary lines centrally. However, the ultimate owner of faculty lines varies from institution to institution.

An EAB survey found that:



While reverting faculty lines to the provost is the most flexible option and allows lines to be redeployed to areas of greatest demand on campus, it is the least common approach. That said, this policy is more common today than 2008, when EAB last conducted this survey and found roughly 10% of institutions pulling vacant lines to the provost.

Regardless of who “owns” faculty lines, business executives at a minimum should seek to capture all one-time vacancy savings at the center. Approximately 70% of institutions pull benefit dollars to the center for the duration of the vacancy. In fact, many institutions administer benefits centrally and never allocate those dollars to units in the first place. Only 40% of institutions keep salary savings from vacant academic unit positions centrally, even though this can be a meaningful contribution to strategic objectives. For example, academic salary savings account for approximately one-third of strategic investment dollars each year at Washburn University.

### Two Sources of One-Time Vacancy Savings

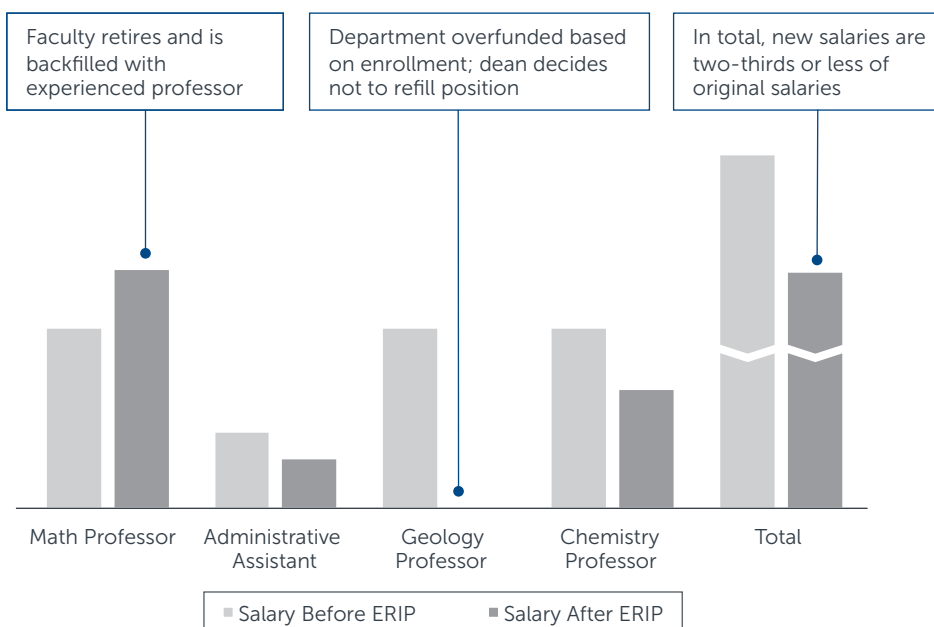
	Benefits	Salary
	Central business office recaptures cost of benefits allocation for duration of position vacancy	Central business office reclaims all salary dollars for duration of position vacancy
Observed Frequency	70%	40%
Sample Savings Opportunity	<p>The University of Maine</p> <p>Units keep salary savings, but benefits savings are directed to central administration, an annual savings of \$1M</p>	<p>Washburn University</p> <p>Vacancy savings directed into strategic investment fund used to partially pay for a new \$17M campus welcoming center</p>

Indiana University takes a more proactive approach to reallocating vacancy savings. In 2013, they offered an Early Retirement Incentive Plan (ERIP) to faculty and staff. For each retirement, two-thirds of the previous salary stays with the dean to backfill the role. The remaining one-third is directed into the central Strategic Investment Fund. The logic of this approach is that older, higher-paid employees who opt for retirement are most often backfilled with someone less experienced and lower paid. Indiana simply codifies this common practice and reallocates the salary gap for strategic priorities. Moreover, they capture the gap in perpetuity, with the one-third gap becoming a permanent line item in the unit's budget.

To ensure every college has the flexibility it needs, the one-third reallocation is not enforced at the individual position level, but instead as an overall target for the dean. An illustrative example is shown below. For research and prestige reasons, the dean may choose to backfill one faculty position with a well-known, higher-paid professor. Conversely, he or she may choose to not backfill one position at all. Deans can allocate salary dollars from vacant positions as they see fit, so long as the new salary total is two-thirds or less of the original salary total.

### Representative Retiring Faculty and Administrative Position Salaries

Within Responsibility Center



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Indiana University’s ERIP has made meaningful contributions to the Strategic Investment Fund. In total, 276 staff and 68 faculty accepted the early retirement incentive. The one-third salary reallocation generated \$10 million for the central Strategic Investment Fund across 2015 and 2016, and will continue to contribute an additional \$5 million each year going forward.

Participation Rates and Contribution to Strategic Funds

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276

Staff participated in ERIP

68

Faculty participated in ERIP

\$8.6M

Lump payout of income replacement and PTO

\$10M

ERIP total contribution to Strategic Investment Fund across 2015–2016

\$5M

Annual contribution to Strategic Investment Fund

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To learn more about position control policies and best practices, access our report *Leveraging Position Control to Prioritize Resources* on the [fungible dollars resource page](#).

## Tactic 3

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### Gradually Increase Percentage of Budget Dedicated to Strategic Priorities

The third tactic to generate central fungible dollars is reallocating a fixed percentage of academic unit budgets to the center. There are two options for this “unit tax” approach. First, with the top slice approach, the institution withholds a percentage of revenue for strategic priorities and creates a budget around the remaining funds. Conversely, with bottom slice, the institution allocates out budget dollars as normal and then pulls back a fixed percentage of each unit’s budget.

The two options will clearly return the same amount of funds to the center. However, an institution’s unique campus culture or current budget model can cause one approach to perform better than the other or receive less resistance.

The table to the right includes examples of institutions that successfully utilize each approach. Note, RCM institutions almost always take a bottom-slice approach, charging units an overhead rate after allocating out revenue.



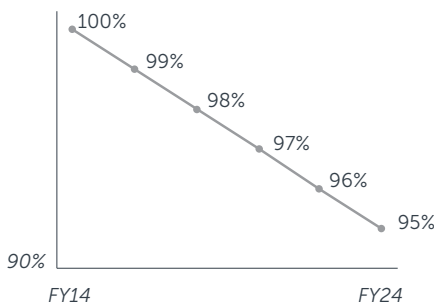
## Strategies for Reallocating a Percentage of Unit Budgets into Strategic Fund

	Centralized Budget Model	Decentralized Budget Model
Top Slice	<p>Institution withholds percentage of revenue for central strategic fund and creates budgets around remaining dollars.</p> <p><b>Thompson Rivers University</b></p> <p>TRU holds back up to 2% of operating revenue annually (before budgeting) for Strategic Investment Fund.</p>	<p>Institution withholds percentage of revenue for central strategic fund before allocating remaining dollars out to units.</p> <p><b>Ohio University</b></p> <p>OU holds back 2% of the projected Education and General (E&amp;G) fund (before allocations) for Strategic Investment Pool.</p>
Bottom Slice	<p>Institution creates budget and distributes dollars to units before reallocating a percentage back for central strategic fund.</p> <p><b>Michigan State University</b></p> <p>After budgeting process, units return 1% of their budget back to the central office for Strategic Investment Fund.</p>	<p>Institution allocates revenue to units according to formula before reallocating a percentage back for central strategic fund.</p> <p><b>RCM Institutions</b></p> <p>Vast majority of RCM institutions employ a bottom-slice strategy, in which a fixed percentage of a unit's budget is returned centrally.</p>

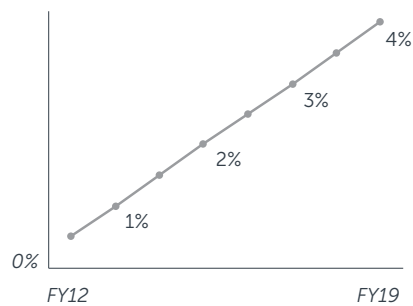
While this “taxing” approach is straightforward, it can be challenging to implement. Faculty and academic leaders will likely be wary of budget allocation changes, particularly significant shifts in funding.

Successfully introducing a system of unit budget reallocation depends on minimizing resistance through a long-term plan and moving toward the desired tax rate gradually over time. Two institutions slowly migrating to their ideal tax rate are shown below. Miami University is migrating to a 5% top-slice tax by withholding 0.5% more of operating revenue each year. Washington University in St. Louis is similarly incrementing their bottom-slice tax by 0.5% each year, until they reach their desired rate of 4%.

Percentage of Institutional Revenue Budgeted Out



Unit Tax for Provost Fund for Academic Initiatives



**Miami University**

- Top-slice approach; each unit must eliminate 0.5% of expenses annually from budget
- In 10 years, Miami will have reclaimed 5% of the total operating budget
- Anticipated savings of \$20M

**Washington University in St. Louis**

- Bottom-slice approach; provost fund financed through tax on traditional undergraduate net tuition
- In FY14, tax generated \$3M
- In FY19, tax will generate \$9M

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While patience is critical with this plan, institutions that have successfully pursued this tactic point to a number of mechanisms that help further mitigate faculty resistance and ease implementation:

### **Introducing tax amid larger budgetary changes**

One university introduced a 2% top-slice tax during the larger transition to RCM. With so many campus conversations about task forces, allocation formulas, and hold-harmless funding, the tax did not receive significant attention.

### **Promising to return a portion of the money to the academy**

Several universities created dedicated pools of money to selectively fund faculty projects with central dollars. Faculty at these institutions were less resistant to the introduction of the tax because they had the chance to win an even larger share of funds. To ensure best use of funds, institutions should earmark dollars only for categories of projects that reinforce larger institutional priorities. Examples include a faculty equity fund, a classroom technology fund, a new academic program fund, and a research start-up fund.

### **Breaking tax down into smaller, specific rates**

Rather than charging units a single rate, some institutions break the tax down into smaller, separate taxes. This keeps individual figures low and avoids academic leaders suffering from “sticker shock.” For example, one institution has separate rates for administrative overhead, facilities, IT, and a support tax for units receiving grant funding.

To learn more about unit-level taxes and budget model incentives, access our report *Optimizing Institutional Budget Models* on the [fungible dollars resource page](#).

## Tactic 4

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### Tie Nontraditional Revenue Streams to Strategic Funds

While the first three tactics focused on ways to reallocate dollars from academic units to central strategic priorities, the next two tactics focus on opportunities to grow revenue. Of course, most revenue colleges and universities generate is committed to cover fixed costs like labor, capital, and debt service. Therefore, increasing central strategic dollars depends on pinpointing more flexible revenue streams.

“All revenue is good, but right now I’m less interested in growing revenue through the traditional system that funds business as usual. I’m looking for revenue that we can grow ‘off the grid’ and more easily divert to other priorities.”

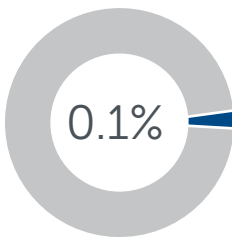
Chief Business Officer  
Private Research University

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The opportunity in Tactic 4 centers on nontraditional (and therefore more fungible) sources of revenues. While most institutions have experimented in this area, some have successfully generated meaningful contributions to central strategic funds. One regional public institution leases ATM space on campus to a local bank. While this is not an uncommon practice, this university interestingly directs all the revenue into the CBO's strategic investment fund. So while the revenue stream accounts for a minimal percentage of the university's total operating revenue, it constitutes a healthy 40% of the central strategic fund.

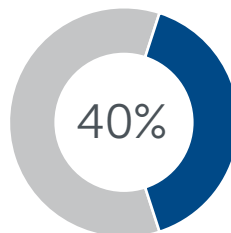
#### ATM Leasing Revenue

as Percentage of Total  
Operating Revenue



#### ATM Leasing Revenue

as Percentage of CBO  
Strategic Investment Fund



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Two more institutions using nontraditional revenue streams to seed a central strategic fund are outlined below. First, beyond ATM leases, the previously referenced regional public also channels revenue from leasing land for cell towers into the chancellor's fund. Together, these alternative revenue streams account for 24% of the institution's two strategic reserve funds.

The University of Florida similarly directs ATM and cell tower lease revenue into a central strategic pool. They also include late payment fees, late registration fees, commission off concession sales, and proceeds from an exclusive contract with Pepsi. In total, these streams contribute \$4 million annually to the central fund.

## Cases in Brief

### *Regional Public University*

- Institution maintains two separate strategic investment funds for the CBO and chancellor
- Chancellor's fund predominantly supported by money from leasing out land for cell towers (\$150K per year)
- CBO's fund supported by fees from leasing out space to credit union for ATMs (\$500K per year)
- In total, nontraditional revenue streams generate \$650K annually for CBO's and chancellor's strategic investment funds, or 24% of all central fungible dollars

### *University of Florida*

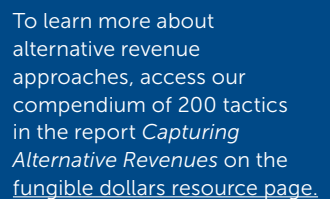
- The University of Florida holds dollars from nontraditional revenue streams centrally to invest in strategic priorities
- Nontraditional revenue streams include money from cell tower leases, leasing out space for ATMs, late payment fees, late registration fees, commissions off concession sales, and revenue from exclusive contract with Pepsi
- Revenue streams contribute \$4M annually to a central strategic fund, representing 9% of the fund's total revenue

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To further help members identify fungible revenue streams, EAB offers extensive resources on alternative revenue strategies. Our publication *Capturing Alternative Revenues* includes a compendium of 200 alternative revenue tactics across seven categories and four executive-level imperatives.

### Seven Categories of Alternative Revenue Strategies

- 1 New Educational Revenues
- 2 Academic Entrepreneurship Infrastructure
- 3 Branding, Licensing, and Affinity
- 4 Auxiliary Services
- 5 Student Fees
- 6 Campus Operations
- 7 Facilities and Real Estate



To learn more about alternative revenue approaches, access our compendium of 200 tactics in the report *Capturing Alternative Revenues* on the [fungible dollars resource page](#).

# Tactic 5

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## Optimize Auxiliary Contribution by Increasing Efficiency and Growing Operation

The fifth tactic is a specific source of flexible dollars—auxiliary revenue. The vast majority of non-athletic auxiliary units generate enough revenue to cover their own costs and debt service. Many also return a portion of surplus revenue to central administration, though the budgeting mechanism varies. An EAB survey found that 29% of auxiliary units pay a flat fee or a fee based on a cost allocation algorithm to cover their portion of central services, 31% return a fixed percentage of revenue to the center, and 2% use a combination of both. Nearly a quarter (24%) of auxiliary units return all surplus revenue to the center.

Absent specific state restrictions, auxiliary revenue returned to central administration is highly fungible. So, many business executives are seeking strategies to enhance this source of funds without increasing student fees. Given intense scrutiny on rising tuition, no institution wants to create similar unwanted attention on room and board fees.

Increasing surplus auxiliary revenue without passing costs along to students centers on three questions.



### Unobtrusive Student Fees

What are the opportunities to increase direct-from-customer revenue without across-the-board increases?



### Outsourcing

Where does it make sense to potentially outsource an auxiliary unit or function?



### Efficiency

Are auxiliary units operating as cost efficiently as possible?



## Unobtrusive Student Fees

The first approach to increasing auxiliary revenue is to introduce opt-in fees students can pay for premium service. For example, students are often willing to pay extra for superior parking options, single-occupant rooms, or textbook delivery. Because these fees are opt-in, not mandatory, students often view the services as perks rather than penalties.

A handful of institutions have seen great success with these fees, generating millions in additional revenue. Leaders should be cautious of introducing too many premium services and creating a culture of “haves” and “have-nots.” However, most institutions can safely introduce 10 to 12 optional fees without disrupting campus culture.

### Sample Premium Fees for Premium Service

#### Dining

Vegan Options	\$150/semester
Flexibility to dine at multiple locations	\$500/semester
Personal chef	\$4,000/semester

#### Parking

Covered parking spot	\$100/semester
Global parking garage access	\$200/semester
Parking spot closer to campus	\$500/semester

#### Housing

Laundry and dry-cleaning services	\$40/week
In-suite kitchenette	\$350/semester
Single-occupancy dorm rooms	\$3,000/semester

#### Bookstore

Books delivered directly to dorm	\$50/semester
Rent-a-book program for assigned textbook	\$250/semester

## Outsourcing

The second approach is evaluating the potential benefits of outsourcing an auxiliary unit or function. Whether or not to outsource is a perennial question, with most institutions outsourcing at least one auxiliary function at some point. However, one of the most analyzed instances of outsourcing in recent years is at the Ohio State University, which privatized parking operations with a 50-year lease agreement worth \$483 million.

While not every institution would consider entering into a such an arrangement, Indiana University was inspired to take a managed competition approach in evaluating its parking operations. They likewise issued an RFP for a 50-year lease agreement. Considering every possible option, Indiana also evaluated profitability of two other scenarios—keeping parking in-house with no change in operations, and keeping parking in-house while making most of the vendor’s proposed improvements and changes themselves. Ultimately, Indiana chose this last option, as financial models consistently showed it providing the most resources to the institution over 50 years.

### Comparing Parking Privatization Offers at Ohio State and Indiana

The Ohio State University	Indiana University
Offered \$483M lump-sum payment for 50-year parking lease	Offered similar 50-year lease for \$275M that would net \$210M after retiring debt
Agreed to lease operations to QIC Global Infrastructure	Opted to keep parking operations in-house while making many improvements proposed by vendor
Projected to yield \$3.1B in investment returns across lease lifetime	Projected to earn \$272M profit across 20 years
5.5% parking rate increase in years 1–10; capped at 4% for remainder	Parking rate increases to be based on market evaluation of peer medians
QIC Global Infrastructure responsible for renovations, equipment upgrades, and repairs	Created annually funded parking repair and renovation (R&R) reserve

## Efficiency

The final approach for increasing auxiliary profit margins is increasing auxiliary efficiency. To help business executives identify opportunities for improvement and cost savings, the Business Affairs Forum offers a series of efficiency “cheat sheets” for four auxiliary units—bookstore, dining, housing, and parking. Each cheat sheet details foundational practices that every institution should pursue. Sample practices are shown below. In addition to providing a detailed description for each practice, each sheet includes a case study and an evaluation of the tactic’s financial impact and implementation difficulty.

### Sample Auxiliary Efficiency Tactics Detailed in Cheat Sheets

#### Dining

Decentralize campus dining locations	\$\$\$	3
Hire part-time and student workers	\$\$	1
Track consumption and food waste	\$\$	2

#### Parking

Lease space for special events	\$\$\$	2
Apply differential employee parking rates	\$\$	2
Offer off-peak parking lot rental	\$\$	1

#### Housing

Charge differential housing rates	\$\$	1
Craft residency requirements	\$\$	1
Limit thermostat range	\$	1

#### Bookstore

Offer student-worker bonus as bookstore credit	\$	1
Target sale events to high-traffic times of year	\$	1
Establish online store with price comparison tool	\$\$\$	2

\$–\$\$\$ Financial Impact

1–3 Implementation Difficulty

To learn more about foundational auxiliary efficiency tactics, access our complete set of auxiliary efficiency cheat sheets on the [fungible dollars resource page](#).

## Tactic 6

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### **Prioritize Executive-Driven Investments by Developing Total Cost Forecast**

The next two tactics explore how institutions deploy central strategic dollars—in particular, securing the greatest return on investment. While colleges and universities obviously aim to invest in projects with high ROI or high strategic importance (or both), not every investment pays off. However, the more low-yield initiatives institutions can identify beforehand and preempt, the more resources will be available for top priorities.

Tactic 6 helps business executives more rigorously evaluate top-down, executive-driven strategic investments. There are two major pitfalls in making top-down investments. The first is overcommitting strategic dollars. This often results from underestimating the cost of a project or partially funding too many initiatives, causing most to underperform relative to expectations. The second pitfall is undercommitting strategic dollars. If institutions have additional, uncommitted money partway through the year, they often look to fund something that can be completed in the same budgeting cycle. This is often a low-priority pet project that can be completed quickly and would not have been funded otherwise.

The solution to both challenges is creating a more accurate picture of initiative costs, both in the short and long term.

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Such estimates will enable business leaders to better prioritize strategic investments that match institutional resources. The following pages highlight Laurentian University's methodology for costing out strategic initiatives across an eight-year period. This method prevents Laurentian from overcommitting dollars, as they select only goals they can fully fund across time. It also prevents undercommitting dollars, as cost estimates allow leaders to approve goals up to available resources. More information about Laurentian's approach can be found on the next two pages.

Beyond creating a more accurate assessment of costs, there are a number of additional advantages to this approach:

#### **Ensuring more for later**

Rejecting cost-prohibitive goals up front gives the institution more flexibility and capacity to recalibrate requirements.

#### **Assisting development**

A realistic projection of cost estimates enables more precise fundraising targets.

#### **Engaging the board**

Providing insight into key assumptions increases board trust in estimate accuracy.

#### **Projecting necessary debt**

Cost estimates allow the board to see how much debt is needed and how much they are willing to issue.

Laurentian University takes a very cost-focused approach to strategic investments. Below is a snapshot of their strategic planning tool, which maps out detailed cost estimates for 40 initiatives across an 8-year period.

Laurentian University Strategic Initiatives	FY2013	FY2014	FY2015
Secure an accreditation from the Association to Advance Collegiate Schools of Business	● \$35,583	\$36,295	\$35,252
Become 100% wireless	\$50,000	\$225,000	<del>\$225,000</del> \$0
Increase enrollment from 7,200 FTE (2011) to 8,300 FTE while increasing the average entry grade from 80.8% to 83%	\$150,000	\$150,000	<del>\$150,000</del> ● \$101,688
Revitalize Certificate of Bilingualism, awarded to 500 students per year	\$25,000	\$10,000	<del>\$40,000</del> ● \$0

<b>Notes:</b>	● Spreadsheet includes detailed, year-over-year cost estimates for each initiative	● Cost estimates allow leaders to defer funding one year and increase allocation in another year
	● Leaders recalibrate and adjust future allocations to initiatives based on shifting priorities	● Some initiatives deprioritized, and all funding eliminated

FY2016	FY2017	FY2018	FY2019	FY2020	Total
\$36,775	\$38,360	\$39,277	\$39,277	\$40,063	\$300,882
\$50,000	\$0	● \$0	\$100,000	\$0	● \$425,000
<del>\$200,000</del> \$49,611	<del>\$200,000</del> \$67,969	<del>\$200,000</del> \$48,173	<del>\$100,000</del> \$17,443	\$0	<del>\$1,150,000</del> \$584,884
<del>-\$40,000</del> \$0	<del>-\$40,000</del> \$0	\$40,000 \$0	<del>-\$40,000</del> \$0	\$0	<del>-\$235,000</del> \$35,000

- Multiyear planning allows leaders to budget high-cost initiatives over time

To learn more about total cost forecasting of strategic priorities, access Laurentian University's complete strategic planning document on the [fungible dollars resource page](#).

# Tactic 7

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## Structuring Seed Funding to Minimize Financial Risk and Make Fund Self-Sustaining

In addition to executive-led, top-down investments, the other use of central strategic dollars is seed funding—central resources set aside specifically to support select faculty and academic leader ideas for new courses, new programs, or new research. Seed funds are an important mechanism to foster entrepreneurship and innovation across campus. However, many of these “bottom-up” investments fail, leading a very low collective rate of return. Worse yet, institutions often have to continue funding failed projects for years or even decades.

To ensure they are putting limited central dollars to best use, a handful of institutions are increasingly taking a venture capitalist approach to seed funds. These institutions isolate and invest in only the projects with highest ROI potential, then direct returns of successful investments to fund the next set of projects.

Three characteristics distinguish how venture-capitalist institutions organize seed funding:



### Rigorous Vetting Process

Institutions establish clear seed fund criteria and require faculty and staff to build strong business case for initiatives.



### Compelling Revenue-Sharing Agreement

Institutions establish revenue-sharing agreements that ensure approved initiatives keep reloading the fund.



### Sunset Mechanism

Institutions ensure that seed fund policies empower leaders to sunset funding if initiatives do not hit proposed targets.



## Rigorous Vetting Process

The first characteristic of a venture-capitalist approach is a rigorous vetting process. Institutions can accomplish this, in part, by establishing clear seed funding criteria that incentivize people to self-screen proposals. This filters out weaker proposals, saving time and effort. For example, deans at Ohio State who propose new research initiatives must commit to launching the center whether or not they receive central funding. The goal is to ensure deans suggest only initiatives that they are fully committed to. In fact, they must submit two proposals—one detailing how they would fund the program without central resources and another outlining how they would use additional seed funds.

Ultimately, though, the crux of any evaluation will be business case templates that applicants complete. To ensure that business plans are thorough, institutions should provide templates that include the criteria listed below, which are organized by complexity from the perspective of faculty with limited financial knowledge. Institutions should consider providing additional resources, such as FAQs and sample responses, to help with the most challenging prompts. Sample business case templates are also available on EAB’s fungible dollars resource page.

Difficulty	Business Case Criteria	Guidelines for Faculty
High	Horizontal Impact	How do initiatives affect other academic, administrative, and support units (e.g., IT requirements, space needs)?
	Key Performance Indicators	How will administrators measure the success of each initiative?
	Cash Flow Analysis	What are the financial requirements to implement and sustain unit-level initiatives?
Medium	Risk Assessment	What are the risks associated with unit-level initiatives (e.g., budget cuts, staff departures, regulatory changes)?
	Options to Accomplish Initiative	Are there multiple pathways to accomplish the initiative?
Low	Required Actions and Time Frame	What are the time frame and action items for the initiative?
	Strategic Partners	Do unit-level initiatives involve partnerships with outside entities?
	Alignment with Institutional Strategic Priorities	How do initiatives support institution-wide goals?
	Business Need	What is the problem or opportunity the business case seeks to address?

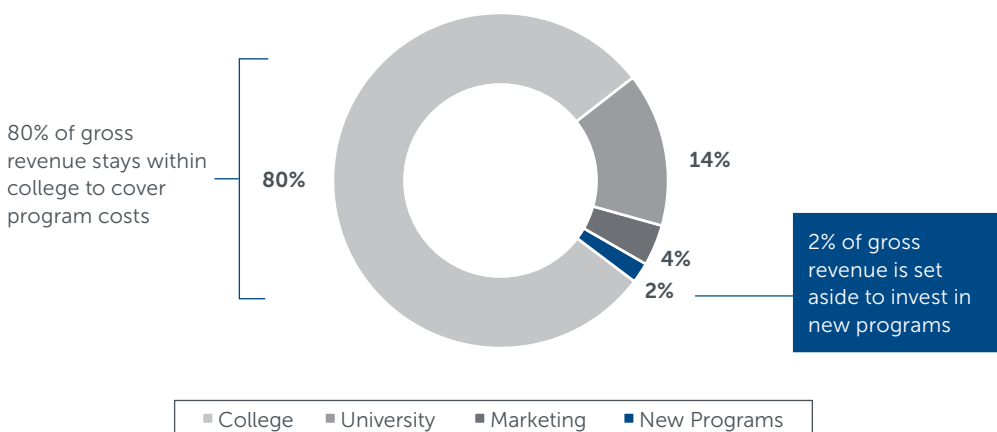
## Compelling Revenue-Sharing Agreement

The second characteristic of a successful seed funding program is to establish compelling revenue-sharing agreements. Progressive institutions are developing financial arrangements that incentivize deans and faculty to come forth with ideas while also providing the center with enough resources to make future investments.

Bemidji State University utilizes a particularly novel revenue-sharing agreement for all new professional master's programs. Eighty percent of gross revenue stays in the college, both to incentivize academic sponsors and cover program costs. Fourteen percent goes into a central strategic fund, 4% is carved out for their extension unit to market the new program, and the remaining 2% is set aside for new programs. This arrangement ensures the institution's seed fund is self-replenishing. For every successful program, a percentage of revenue is permanently directed back into a seed fund to help launch more new programs.

### Revenue Sharing Agreement for New Professional Master's Programs

Bemidji State University



## Sunseting Mechanism

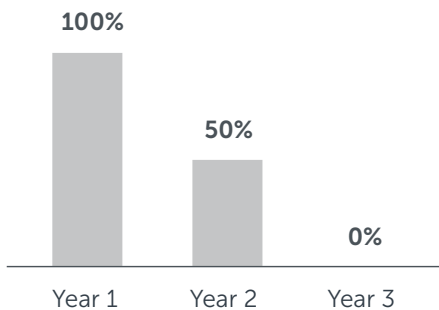
The third and most critical characteristic of a successful seed funding program is a mechanism to sunset unsuccessful initiatives. Not every investment will succeed, so business leaders need the ability to end funding and avoid supporting bad bets in perpetuity.

The most straightforward method is to force initiatives to self-fund. For example, Penn State's conference center covers all first-year costs for new conferences, providing an important safety net to attract aspirant faculty. In year two, the center covers only 50% of costs. In year three, the conference must cover its own costs or fold. In either case, Penn State's conference center avoids paying for unprofitable conferences after the third year.

A second approach is to make sunseting the default option. The University of Alabama at Birmingham does this with research centers by using a formal probationary period. All approved research centers automatically begin in pilot status and are evaluated on predetermined performance criteria after three years. Pilot programs are either promoted to full research center or sunset. Out of 17 new centers chartered in the past decade, 9 were rechartered or sunset.

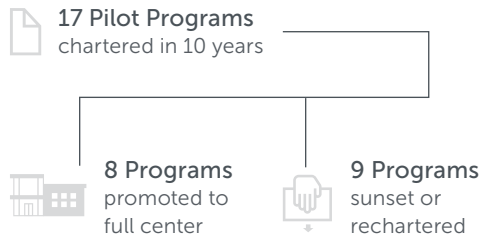
### Percentage of Conference Costs Paid

Penn State's Central Conference Unit



### Evaluation and Promotion Process

University of Alabama at Birmingham



To learn more about vetting seed funding proposals, access our library of sample business case templates on the [fungible dollars resource page](#).

## Tactic 8

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### Communicate Appropriate Levels of Financial Information to Boards and Faculty

The final tactic focuses on a critical but less obvious component of growing central strategic resources—communication. Efforts to reallocate resources and grow fungible revenue streams can be quickly undone by poor communication that leads to resistance from faculty, boards, or state governments.

An unfortunate case illustrating the importance of communication comes from the University of Wisconsin. A state audit revealed the system was holding approximately \$1 billion in reserves. In reality, very little of these funds were unrestricted. However, not fully understanding university finances, the state government viewed the reserve as a giant slush fund. They froze tuition and appropriations, forcing the system to make serious budget cuts and spend down 27% of reserve funding.

While the system and campus business leaders attempted to educate stakeholders after the audit's release, many in the state had already determined next steps. Instead, it is vital for institutions to stay ahead of potential pushback and proactively communicate intent to build strategic reserves to relevant stakeholders.

Notably, though, communicating financial information can be a tricky balancing act. Communicating too little information can cause stakeholders to question the institution's true financial position and incorrectly assume it has greater resources. On the other hand, communicating too much may prompt stakeholders to question specific spending priorities. Institutions should aim to communicate just enough information to garner buy-in, but not enough to generate unwanted scrutiny. Business executives who have successfully struck this balance at their institutions focus communication around answering two questions:



How Big Are Our Strategic Reserves?



Why Are Strategic Investment Dollars Important?

## How Big Are Our Strategic Reserves?

The first question business executives must answer for stakeholders is how large are the strategic reserves. To this end, Thompson Rivers University shares the table below at all board and faculty senate meetings. The table succinctly displays accumulated surplus totals, broken down into smaller categories. Furthermore, each category is explained with minimal financial jargon, using lay terms and relatable day-to-day analogies. For instance, the first category compares resources invested in fixed assets to home equity, and the last category explains the difference between operating and capital funds.

### Thompson Rivers University's Breakdown of Accumulated Surplus Report

Surplus Type	2014	What This Really Means
Invested in Fixed Assets	\$36M	This amount is equivalent to the equity in your home. These are investments in tangible assets (e.g., buildings and infrastructure) that cannot easily be converted into cash (i.e., sold) and are the value of those assets net of improvements and depreciation.
Internally Restricted	\$25.4M	This amount has accumulated over time and is comprised of board-approved restrictions including the international building fund, the board contingency, and faculty/departmental carry-forwards.
Restricted for Endowments	\$0.7M	This amount reflects a small endowment fund held by the university. The interest it generates can be expended for the purposes of the endowment only.
Accumulated Re-measurement Gains/Losses	(\$0.1M)	This amount represents an accounting adjustment that includes the unrealized changes in fair value of instruments measured at fair value and unrealized foreign exchange gains and losses. These accumulate here until the financial instrument they are associated with is derecognized.
Unrestricted Surplus	\$17.3M	This is the amount of cash that has "no-strings-attached" that the University has accumulated over its 43 year history. This cash can be used for anything but because it was earned as a revenue in a prior period, if used for operating purposes it creates an expense in the year it was used. The least impactful use of this cash is on capital items. This cannot be used to fund positions. Once this money is spent, it is spent forever.
Accumulated Surplus	\$79.3M	

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## Why Are Strategic Investment Dollars Important?

The second question business executives must answer is why institutions need to build up strategic reserves. The response should be tailored to the audience.

Faculty are most interested in learning how strategic reserves will affect teaching and research. To communicate this, Michigan State University organizes a portion of strategic reserves into a handful of separate funds, each named to indicate impact on faculty. This includes a new faculty fund, an education technology fund, and a space renovation fund. Dollars are only earmarked to these funds and can be reallocated as necessary. The goal is to help faculty quickly understand what reserves are for and the value in growing strategic funds.

On the other hand, boards are most concerned with overall financial health of the institution. When Ohio University began a multiyear effort to build \$100 million in strategic reserves, finance leaders crafted a concise, high-level message to the board on why growing reserves was vital to long-term financial health. The final report centers on four key points:

### Debt capacity

Strategic reserve balances give the university the option to take on additional debt in the future to finance new projects.

### Credit rating

Strategic reserves allow the university to improve and maintain Moody's credit rating.

### Capital improvement plan

Strategic reserves allow the university to develop and undertake capital improvement projects.

### Volatility of market

Strategic reserves provide a cushion against market changes such as decreases in state appropriations or tuition caps.

To help business executives tailor their message to specific audiences, the table below summarizes the key differences in communicating to faculty versus boards, as well as some of the most common questions from each group.

**Recommended Differences in Communicating Strategic Reserves to Boards and Faculty**

	Areas of Focus	Questions to Anticipate
<i>Faculty</i>	Purpose of strategic reserve and how it helps advance institution's goals and mission	<ul style="list-style-type: none"> <li>Why can't we use this money to fund new positions or salary increases?</li> </ul>
	Tangible benefits of strategic reserves, such as buildings or new programs	
	Difference between capital and operating expense	
<i>Board</i>	Detailed explanation of institutional reserves (strategic and otherwise)	<ul style="list-style-type: none"> <li>Why are we trying to build up strategic reserves instead of funding strategic priorities in the short term?</li> </ul>
	Current liquidity	
	Debt liability	<ul style="list-style-type: none"> <li>How do our resources compare to peer institutions?</li> </ul>
	Bond rating	
	Market volatility	

To learn more about winning support for strategic saving initiatives, access the complete version of Ohio University's board presentation on the [fungible dollars resource page](#).

# Learn More

To further assist members in growing central strategic dollars, we offer a host of additional resources with best-practice recommendations and implementation guidance. Members can access, download, and order hard copies of the resources listed below at the fungible dollars resource page [eab.com/baf/fungibledollars](http://eab.com/baf/fungibledollars).

## Tactic 1

### › Structuring and Transitioning to Impactful Gainsharing

Detailed report on how institutions have successfully designed and migrated to a gainsharing policy. (Page 14)

## Tactic 2

### › Leveraging Position Control to Prioritize Resources

Four best practices to implement a rigorous position control process that assesses positions as they become vacant and allows the center to reclaim or redeploy staffing dollars as needed. (Page 18)

## Tactic 3

### › Optimizing Institutional Budget Models

Four executive-level lessons on budget design and compendium of 29 budget model elements to guide the development of a more strategic resource allocation system. (Page 22)

## Tactic 4

### › Capturing Alternative Revenues

Compendium of 200 nontraditional revenue tactics. (Page 26)



## Tactic 5

### › Auxiliary Efficiency Cheat Sheets

Cheat sheet of foundational tactics to improve the efficiency of four auxiliary units—bookstore, dining, housing, and parking. (Page 30)

## Tactic 6

### › Laurentian University's Strategic Planning Document

Strategic planning tool outlining detailed cost estimates for Laurentian University's 40 strategic priorities. (Page 34)

## Tactic 7

### › Sample Business Case Templates

Repository of sample business case templates from different institutions. (Page 38)

## Tactic 8

### › Ohio University's Board Presentation

Presentation for Ohio University's board detailing importance of reserve funds. (Page 42)

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Business Affairs Forum interviews and analysis.



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