Academic Finance Demystified

Better understanding of how the money flows can help professors navigate their campuses’ budget processes. Elizabeth H. Simmons offers a primer.

By Elizabeth H. Simmons // September 16, 2011

As the dean of a residential undergraduate science college within a public research university, I find that faculty members are continually proposing exciting new ideas for integrating research, education, and community life across the disciplines. Then they are confronted with the reality of budget constraints, usually through a conversation with me. Many times we are able to find a way to move an idea forward; at other times, substantial rethinking is required.

It has dawned on me that if the faculty were made aware of a few basic principles of academic finance, it might help them mold their creative ideas into more logistically feasible forms from the start. In my experience, faculty are well aware that university budgets are tight at present, but they tend to know less about the limitations on how certain types of funds may be spent or the constraints imposed by pre-existing commitments. This article is intended as a starting place for faculty and academic staff wanting to learn about academic finance; details will vary by institution, so readers should also consult local university budget experts. I hope this overview may demystify a few arcane terms and convey some useful perspectives.

Multiple Flavors of Money

The academic budget of a university, college, or department is usually composed of several distinct streams of funds with different sources, durations, and restrictions. Much of an academic administrator’s work in budget planning and analysis involves determining which programs and personnel should be funded by which type of support.

One common division is between recurring funds the unit receives every year and non-recurring funds that are available only for one or a few years to support a particular expense. Prudent leaders of academic or other units accept new long-term obligations only if the recurring funds to meet them are in the budget or if a reliable new revenue stream can be designated to cover the costs; examples include salaries of continuing employees, curriculum budgets, or equipment maintenance contracts. One-time expenses, in
Contrast, can be funded from either recurring or non-recurring funds; examples include parental leaves, a new copy machine, or start-up funds for a new assistant professor. A cross-cutting categorization is by source. So-called general funds from tuition or state appropriations usually can be used for any college or departmental function, with few restrictions. Development funds, generously provided by alumni, foundations or corporations, may either be unrestricted (available for most purposes) or directed by the donor to support a particular expense (e.g., scholarships). Federal and state agencies or philanthropic foundations may award the university grant funds to support a specific project undertaken by designated faculty or academic staff; these can only be used for that purpose. Some grants are accompanied by support for the indirect costs of maintaining a research environment; such funds may be held centrally by the university or shared with colleges, departments, or even the associated grant’s principle investigators. These indirect cost funds need not be applied to one specific project, but they must be used to support the research mission of the institution. Many universities also have other sources of income related to teaching and research, such as online courses, study abroad programs, or spin-off companies; the rules on how such funds are distributed and spent can vary widely.

This diverse array of monetary “flavors” can certainly seem confusing. But it can also preserve opportunities to start new ventures or maintain valued enrichment activities when times are tough. For example, we, like colleagues at many institutions, have been rigorously cutting costs of late, but our college has been able to start a new labor-intensive research methods class and underwrite capstone seminar visits to museums or labs in other cities because of development or grant accounts established for such purposes.

**Timing is Everything**

Support for certain expenses may be available only at special times of year; being aware of the local schedule allows you to time requests accordingly. For example, if your university allocates funds for new faculty computers or classroom technology every March, submitting your request by the February deadline is essential. If you are counting on income from indirect costs, study abroad programs, or online courses to fund a new project, you need to know when this money will actually reach your department’s coffers; a year’s accounting delay might well be built into the system. Your department chair or dean should be able to tell you the financial schedule for your institution. (Last year, I created an actual financial FAQ (http://www.lymanbriggs.msu.edu/FinancialFAQ.cfm) for my college, with local references embedded.)

On the other hand, some funds must be spent in the year when they are received; examples include expendable gifts or investment income from an endowment. So keep your local development officer informed about your ideas and projects; s/he may be able to match available funds with your needs surprisingly quickly. Just this year, we were thrilled that generous donors stepped in to fund travel
expenses that had seemed like an insurmountable barrier to a student hoping to accept a research internship abroad.

In fact, an institution's development & alumni relations (a.k.a. advancement) professionals often collaborate with faculty and staff on communicating accomplishments and aspirations to outside audiences. Your passionate description of the transformative learning opportunities afforded by a new set of equipment, a mentored teaching experience, or a summer research project can help the advancement officer identify the potential for alumni involvement or donor support. The sooner they know about it the better: you can never predict when they will find themselves speaking with a potential donor who turns out to share your interests.

**Closing the Books**

Faculty often ask me whether to expend all available funds in a budget whose funding period is about to expire. And when I sometimes answer “no,” the surprise is palpable. But the right approach depends on context, including the funding duration and source.

Sometimes, funds have been made available on a one-time basis for a special purpose and will not remain with the department after the project is over. These might include grant funds or money for renovations. If important goals associated with the original funding purpose can be met by expending the remaining funds, then one should do so.

In other cases, funds may revert to the recurring department or college budget if unspent and may be carried over into a “contingency fund” to deal with next year’s inevitable crises. In this case, the unspent money may do most good by joining the contingency fund. Rather than buying an extra three years’ worth of glassware in May, it may be better to have a nest egg in case the teaching lab freezer fails abruptly in the fall. Instead of replacing an older but viable classroom computer in May, it may be better to wait for the following year’s technology allocation to cover that purchase … and have more contingency funds to spare in case someone needs a medical leave.

**Asking Effectively**

Finally, I’d like to provide a few basic recommendations for framing persuasive funding requests to your local administrators: Explain why supporting the endeavor is in the best interests of the unit, as well as your own. Be specific about exactly what is being requested (e.g., cash, materials, or staff time? one-time or recurring funds?); your unit’s budget officer can offer valuable advice on these matters. Mention whether any collaborating units are also contributing to the budget – such interest from partners can be persuasive. Provide broader context for the request (Why now? How does it relate to the unit’s strategic plan? Does it improve existing curriculums? Will it spawn external grant proposals?). Include relevant data supporting the current need for the investment. Above all, ask for input on what might make the request
Bio

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