

A Guide to the Budget of the University of South Carolina

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Budget Committee, University of South Carolina (Comments to:
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Introduction

The University of South Carolina has three primary missions: education, research, and service. To accomplish these goals the university receives money from various sources and distributes it to the different colleges and service units. This document explains where the money comes from and the process by which it is distributed. We also comment on the importance of grants to colleges and the university.

It must be emphasized from the start that this document is a *simplification*, of the actual budget operation. The purpose is to give the interested faculty member a general idea of how the budget process works, not to present the process in complete detail. Hopefully, we have distilled the procedure to its essence and omitted details that are not of primary importance. We are aware that we must balance the efficiency of abstraction with the accuracy of detail. We also acknowledge that the report contains interpretations and comments. These are intended to place the USC budget process in a larger context and provide perspective on budgets in general. Those who are interested in the USC process in greater depth are encouraged to go to the website of the Budget Office, a part of the Division of Business and Finance of the university. The website address is <http://busfinance.admin.sc.edu/budget/>.

The most striking feature of the current budget system is the degree to which it is *decentralized*. As we explain below, college deans have considerable control over the available resources. The rules governing the interaction between

deans and department chairs varies widely across campus, we suspect, and we do not attempt to deal with that issue here.

1. Sources of Funds

The university receives *current funds* from several sources.¹ As current funds flow into the university they are directly distributed to certain accounts and, from there, downward to the colleges and other units. The projected magnitude of current funds for the University system for the year 2005 – 06 is \$826,406,000. The Columbia campus receives most of that, a total of \$626,253,032.

The university budget office classifies current inflows in two main ways, their origin (which we might call “source type”) and their immediate destination (“restriction type”). Within each, there are important sub-divisions.

Source type

One way to classify current funds is by origin or *source type*. There are two general categories, split into five source types. These are, in order of importance as of 2005 – 06:

- E & G (Education and General) (88%)
 - Tuition and Fees (33%)
 - Grants, Contracts, and Gifts (29)
 - State Appropriations (24)
 - Sales and Service Educational (2)
- Auxiliary operations (e.g. housing, athletics, bookstore) (12%)

We will discuss the five sources in more detail below.

¹ Besides current funds, there are four other major funds: loan funds, endowment funds, agency funds, and plant funds. We will not be concerned with these other funds, which are quite specialized and restricted.

Restriction type

Current funds are also classified by *restriction*. There are two broad types:

- Unrestricted
 - A, D, E, R, B, C
- Restricted
 - F, G, H, J, K, L, S

The letters above refer to individual *funds* or *accounts* with particular characteristics that serve as the functional destinations for the funds. For example, “A” funds — which include most State Appropriations and the bulk of Tuition and Fees — are the most general, unrestricted funds. This is also the single largest account. The “B” and “C” funds are the destinations for the income from auxiliary enterprises like housing, the bookstore, food vending, and athletics.

Restricted funds are primarily from grants and gifts. For example, “F” funds are monies from Federal government grants, while “G” funds come from State grants. When a researcher receives a grant to pay for equipment, travel, student help, and her own wages, these funds are restricted. Grants also generate unrestricted inflows, however. We discuss grants in a special section below.

Each lettered account has both *revenues* and *expenditures*. That is, money is spent *from* a specific account just as it flows *into* a specific account. There are also *transfers* within and between accounts before expenditures are made. As funds flow downward to the colleges (which we discuss in detail below) they are maintained in one of these accounts.

Currently, unrestricted fund revenues are about three times larger than restricted fund revenues. Most of the attention at all levels focuses on unrestricted funds. And, within that category, by far the most attention is paid to “A” funds. The second largest source of unrestricted revenue is the “E” fund. These are funds credited to a college at the departmental level.

A complete list and description of the lettered accounts is included here in Appendix 1. It was taken from the Budget Office web page

<http://busfinance.admin.sc.edu/budget/execution.asp> under the link “Description of Funds”.

Because so much attention is focused on *unrestricted funds*, it seems useful to explain how the five *source types* of inflows noted previously contribute to the unrestricted income in the *lettered fund accounts*. Table 1 shows the relevant matrix of *proposed* revenues and expenditures for FY 2006 (i.e. ending June 30, 2006) for the *Columbia campus only*. This comes from page 41 of the *University of South Carolina Budget Document (Fiscal Year 2005 – 2006), presented to the Board of Trustees* (henceforth, the *BOT*). It is available on the web at http://busfinance.admin.sc.edu/budget/budget_summaries.asp.

Although we concentrate on unrestricted revenues and expenditures of the Columbia campus, all of the information for each campus is available at the above link.

It is instructive to comment briefly on each line of the revenue items in the top part Table 1.

1.1 Tuition (A, D, E accounts)

Tuition paid to the university is divided into “E&G tuition” (78.35%) and “Board Mandated Fees” (21.65%). The E&G tuition is recorded in the first cell of Line 2 of Table 1 (\$192.9 million), and it is the principal source of “A” funds. This portion of tuition flows to the colleges, as we discuss below. The Board Mandated Fees (BMF) portion of tuition is earmarked for debt service, renovation, and other specific uses.²

1.2 State Appropriations (A)

This is the other main source of “A” funds (Line 3). It is a direct transfer from the state government to the university. Each regional campus receives its allocation separately. The School of Medicine is part of the Columbia campus.

² Part of this is in the first line of Table 1 under “D” and “E” Funds. But some flows to the restricted account X for debt service.

Table 1

Columbia Campus: FY2006 Proposed Unrestricted Current Funds

		Lettered Fund (Account) Millions of Dollars							
		A	B	C	D	E	R	S	Total
Resources:									
1	<u>Revenue:</u>								
2	Tuition and Fees	192.86	0	0	2.85	11.45	0	0	207.16
3	State Appropriations	137.62	0	0	0	0	0	0	137.62
4	Grants, Contracts, Gifts	1.31	0	0	0	11.5	0.25	0.45	13.51
5	Sales & Service: Educ.	4.13	0	0	1.15	8.55	0	0	13.83
6	Sales & Service: Auxiliary	0	35.46	54.92	0	0	0	0	90.38
7	Total	335.92	35.46	54.92	4	31.5	0.25	0.45	462.5
<u>Transfers:</u>									
8	In	102.08	0	0	0.25	31.15	0.43	2.4	136.31
9	Out	-96.94	-11.62	-10.24	-0.75	-34.01	0	0	-153.56
10	Net Transfers	5.14	-11.62	-10.24	-0.5	-2.86	0.43	2.4	-17.25
11	Prior -Year Fund Balance	42.76	3.86	11.82	1.36	23.84	1.03	0.39	85.07
12	Total Resources	383.82	27.7	56.5	4.86	52.48	1.71	3.24	530.32
Uses:									
13	<u>Educational and General Expenditure</u>								
14	Instruction	207.35	0	0	0	4.45	0.1	0	211.9
15	Research	17.6	0	0	0	9.75	0.075	0	27.425
16	Public Service	4.87	0	0	0	4.2	0.04	0	9.11
17	Academic Support	43.98	0	0	0	4.15	0.11	0	48.24
18	Student Services	20.07	0	0	3.48	2.25	0.045	0	25.845
19	Institutional Support	33	0	0	0	1.25	0.315	0	34.565
20	Operation and Maintenance	37.86	0	0	0	0.15	0	0	38.01
21	Scholarships & Fellowships	16.48	0	0	0	0.405	0	3.1	19.985
22	Total	381.21	0	0	3.48	26.605	0.685	3.1	415.08
23	<u>Auxiliary Enterprise Expenditure</u>	0	24.78	44.536	0	0	0	0	69.316
24	Total Uses	381.21	24.78	44.536	3.48	26.605	0.685	3.1	484.396
25	Fund Balance	2.61	2.92	11.964	1.38	25.875	1.025	0.14	45.924

Source: University of South Carolina Budget Document (FY 2005 - 06), page 41. Budget Office web page (see text).

1.3 Grants (A, D, E, R, S)

The receipt of a grant by a researcher has important implications for the funds of the college and the university (see below). The most important *unrestricted* income to the university (Line 4) is its portion of the *indirect cost* of the grant (IDC) or overhead (“E” fund). However, grants generate most of their income in restricted funds, which we deal with in a separate section below.

1.4 Educational Sales (A, D, E, R,S)

Income in this category (Line 5) is from rental fees for university space, continuing education, student orientation, the South Carolina Press, and other operations. These inflows are usually counted as being generated by departments (“E”) although some are generated by student activity fees (“D”) and some are general (“A”). A few are credited to scholarships (S). This account is relatively small.

1.5 Auxiliary operations (B, C)

The funds in this category (Line 6) are monies that are generated by the self-supporting operations: housing, student health, the University bookstore, food service, concessions, parking, and athletics. Each of these units earn income and use it to run their normal operations. They are self-sufficient and earn a profit. They are allowed to bank part of this profit for future expenditure, but each year a transfer is made from these auxiliary units to the university (Line 9).

1.6 Transfers and Balances

While funds flow into the university in one of the above categories, there is some scope for the funds to be transferred between accounts. Some of these are between colleges but most are transfers from academic units to *service units*, a process we describe below.

Each fund need not be depleted on an annual basis. Usually, each of the unrestricted funds we been discussing will have a positive balance at the end of the year. This is available for spending in the next year (Line 25).

1.7 Summary

It should be emphasized that discussions of the budget and the distribution of monies to academic units is principally concerned with “A” funds (especially

E&G tuition and state appropriations). Accordingly, we next describe how colleges receive “A” funds and pay for university services and academic initiatives.

2. Distribution of “A” Funds to Colleges

The official term for “college” is “academic unit”. Here, we use the two terms interchangeably as we discuss the distribution of “A” funds.

Each year, every college has *two* sources of revenue. Each year, it also pays a “tax” — determined by a well-defined formula — back to the university for its portion of *general services* and for *academic initiatives*. Finally, it incurs *direct expenses* for normal operations and expansion. It may or may not have a surplus (“carry-forward”) at the end of the year.

2.1 College Revenue

The first source of revenue is the *state appropriation*. All of the state funds are allocated *directly* to a college. The allocations are not the same for each college and are of historical origin. They were put in place in 2003 when the current budget system was initiated. At that time, colleges were granted a transfer sufficient in size to keep their total income the same during the transition. These allocations are the same today in *relative* terms, but all have increased. That is, as the state appropriation increases, each college receives a pro-rata share of that increase.

The second source of yearly revenue is the *E&G tuition*. The university tracks every individual class section and knows how many students are in each one. Since it knows how much each student paid, it can calculate how much each student paid *per credit hour*. It gives the E&G portion of the revenue generated by its sections to each college (roughly 78% of what the student paid). The more sections, and the more students per section, the greater is this source of revenue. Each college is said “to produce credit hours” to earn income from this activity. All of the E&G tuition (like the state appropriation) is handed to the colleges directly.

The *size* of the college, *defined as the number of credit hours produced (i.e. by the students in its sections)* is thus crucial for the determination of its total revenue. The following formula *approximately* determines gross revenue of any college j :

$$(1) \quad Revenue_j = SA_j + TRate * CH_j .$$

In the above, SA_j is the academic unit's state appropriation, $TRate$ is the rate of tuition per credit hour, and CH_j is the college's total credit hours produced in the year. It turns out that $TRate$ is about \$265.³ Equation (1) is only an *approximation*, since students pay different amounts per credit hour, depending upon their residency status and whether or not they are full-time. Nevertheless, this formula conveys, in a simple manner, the basic idea: academic units are rewarded for the credit hours they produce.

Figure 1 shows the total revenue for three hypothetical colleges as a function of credit hours produced. College 1 receives an allocation of \$4.4 million from the state; College 2 gets \$5.6 million; and College 3 gets \$10.8 million. All are assumed to have the same $TRate$ (which is not strictly correct, since the mix of part-time and non-resident students varies across colleges). To take a simple numerical example, if College 2 taught 9,000 credit hours ($CH = 9,000$) its total revenue would be about \$7.98 million.⁴

2.2 College Services Tax

Each college must pay a *tax* (actually called a “pre-set assessment”) back to the university for the use of services — like security, house keeping, mail services, and utilities — that are produced and used collectively. This tax depends on the size of the college, but the relationship is more complex than the revenue formula.

It works as follows. Think of the “academic units” (i.e. colleges) buying services from the “service units” of the university. Not counting the self-sufficient

³ Basic undergraduate in-state tuition is \$3,657 per semester, but the academic unit only keeps \$2,865 — the “E&G tuition”. This comes out to be \$5,730 per year. Out-of-state E&G tuition is \$8,419 per semester (\$16,838 per year). A normal load is 30 credit hours per year. The student body is about 80% in-state. We calculate the “average” or “normal” tuition per credit hour as the weighted average:

$$TRate = .8 * \left(\frac{5,730}{30} \right) + .2 * \left(\frac{16,838}{30} \right) = \$265. \text{ The amount actually paid by a student}$$

will depend on how many hours she is taking (whether she is full-time, part-time, or more than full-time) and whether she is in-state or out-of-state.

⁴ That is, $5.6m + 265 * 9,000 = 7.98 m$.

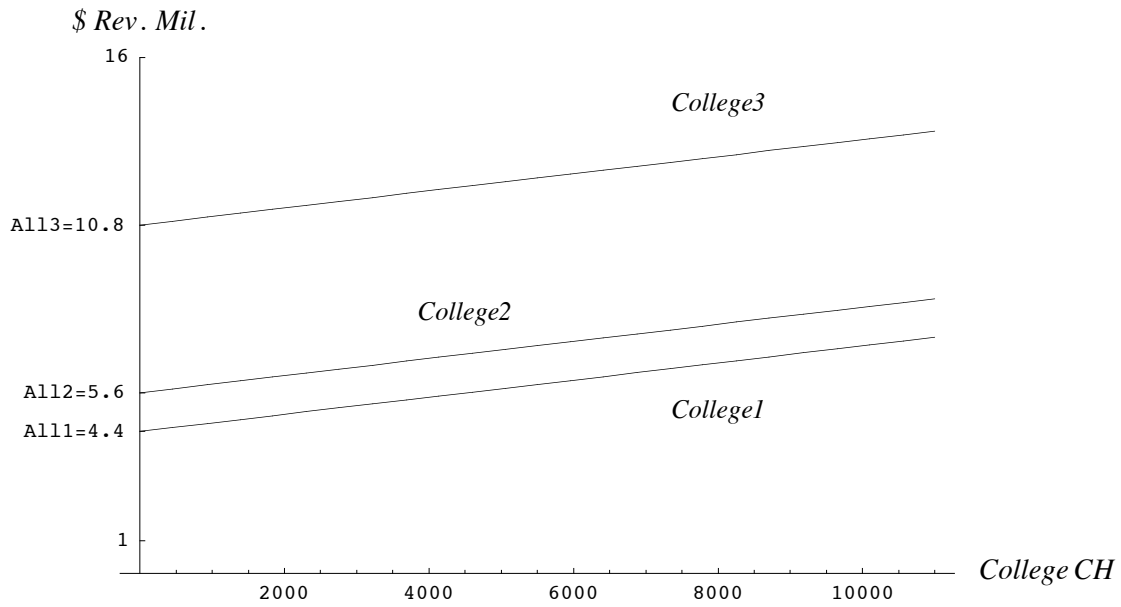


Figure 1: Revenue for Three Hypothetical Colleges

auxiliaries, every unit of the university is either an academic unit or a service unit, but only the academic units earn revenue (as described above). Hence, they must pay to keep the service units going. These payments are made via the transfers in Table 1 (Lines 8 and 9).

The service units are categorized into one of 11 *groups*, depending on their general function (e.g. Group 10 is “property insurance, health and safety services, facilities service, and utilities”). The cost of producing the service of each group is assumed to be determined by *one of eight* different measures. For example, the cost of running the Bursar’s office and library services (Group 2) are considered to be the result of the credit hours of all academic units in all campuses. Group 1 services (Academic support, Law enforcement, Columbia Library, Faculty Senate, etc.) are considered to be determined by the credit hours produced only by the Columbia campus academic units. Insurance and utilities (Group 10) are determined by the available square footage of the academic units.

Let TC_i be the university’s total cost of running Group i services. Let M_i be the university’s total amount of the factor that is supposed to incur the cost, whether that be credit hours produced, square footage controlled, “A” fund budget amount, or full-time employees under contract. Then, define the *assessment rate* for each group as:

$$(2) \quad arate_i = \frac{TC_i}{M_i} .$$

Each college pays for their services by multiplying $arate_i$ by their particular amount of the factor. That is, let M_{ij} be the amount of factor i produced or owned by College j . Then College j pays $(arate_i M_{ij})$ for Group i service. Each college pays for 11 services. The total payment made by the academic unit is called the college’s “pre-set assessment” or tax bill.

In this manner, all of the service units’ costs are allocated to the different colleges. So service units always break even by design.⁵

⁵ The total cost of each service unit has increased each year by the amount of salary and fringe increases. The service units cannot arbitrarily increase their costs.

For our purposes, it is useful to divide the tax faced by a college into two parts, that which depends on credit hours produced and that which depends on the other allocation factors. That is, we may represent the tax for College j in terms of the following formula:

$$(3) \quad Tax_j = FixedTax_j + ARate * CH_j,$$

where $FixedTax_j$ is that part of the college tax that does *not* depend on credit hours produced (like “assignable square footage”, “full-time employees”, “A fund budget”, etc.). As before, CH_j refers to the college’s total credit hours produced. Here $ARate$ is equal to the sum of the $arate_i$ rates that pertain to credit hours. There are three such categories, plus one that applies only to credit hours that use DEIS (distance education) services. The value for $ARate$ is the same for each college and is about \$77 for FY2006.⁶

2.3 Academic Initiative Taxes

There are also transfers *between* academic units. These, which fund the so-called academic initiatives, are relatively small, totaling \$4.84 million for FY2006. For example, the Faculty Excellence Initiative (FEI), the largest of the programs, proposes spending \$2.0 million on new faculty in each of the next six years (a total of \$12 m). These funds — which go to hiring new faculty — are being generated by taxing the academic units. They will end up back in the academic units to pay for the new salaries, but any given college may well end up paying more than it receives.

These taxes also depend on the credit-hours produced by the academic unit. The rate is \$8.25 per credit-hour, which makes the total $ARate$ in Equation (3) rise to about \$85.

Figure 2 considers the hypothetical College 3 referred to earlier. The fixed tax is assumed to be \$2.0 million. The upper line shows total revenue and the lower line shows the total tax. Both rise with student enrollment in the college.

⁶ DEIS credit hours are assessed an extra \$86.

2.4 Net Income

The difference between revenue and the two taxes is *net income* for the college.

In Figure 3 we show the net income for hypothetical College 3. The salient fact is that *net income rises* with the number of credit hours produced by College 3. For each credit-hour, net income rises by about \$180 (i.e. the difference between \$265 in revenue and \$85 in tax).⁷

2.5 Spending and Carry-forward

The net income of the academic unit is spent predominantly on professor and staff salaries. These decisions are determined by the deans.⁸ They have considerable freedom in deciding how their net income is spent by the sub-units of their colleges. Department chairs face different spending rules and constraints in each of the colleges.

Total college spending need not equal net income in every year. Spending *less than* net income is quite common. The difference is called the *carry-forward*. This sum is not taxed *explicitly* and is added to next year's revenue along with the state allocation. However, it is subject to tax because it adds to next year's budget, the size of which is one of the factors that contributes to the yearly tax.⁹

⁷ There are other inter-college transfers. These include funding for the Evening Program and salary increases for tenure and promotion. There are several small collaborative ventures between colleges that require transfers. None of these are very large compared to the taxes noted in the text.

⁸ It should be noted that *faculty lines* are not automatically granted. A dean must make an application to the provost for the creation of a new line. Normally, these are granted, but it is not difficult to imagine cases in which an application might be declined.

⁹ Both the *total budget* and the *non-personnel budget* are "allocation factors" M_i in Equation (2) that determines the services tax. So, since the carry-forward increases the budget in the following year, it will increase the service tax in that year. The tax on the total budget is quite modest (a little more than ½%). However, the non-personnel budget tax is a significant 8.6%. It should be emphasized that the tax

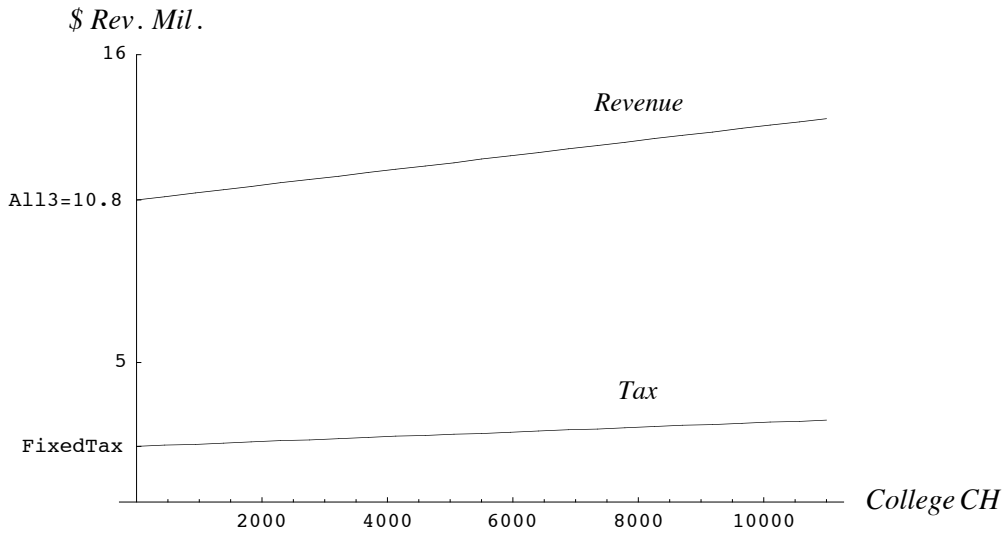


Figure 2: Revenue and Tax for College 3

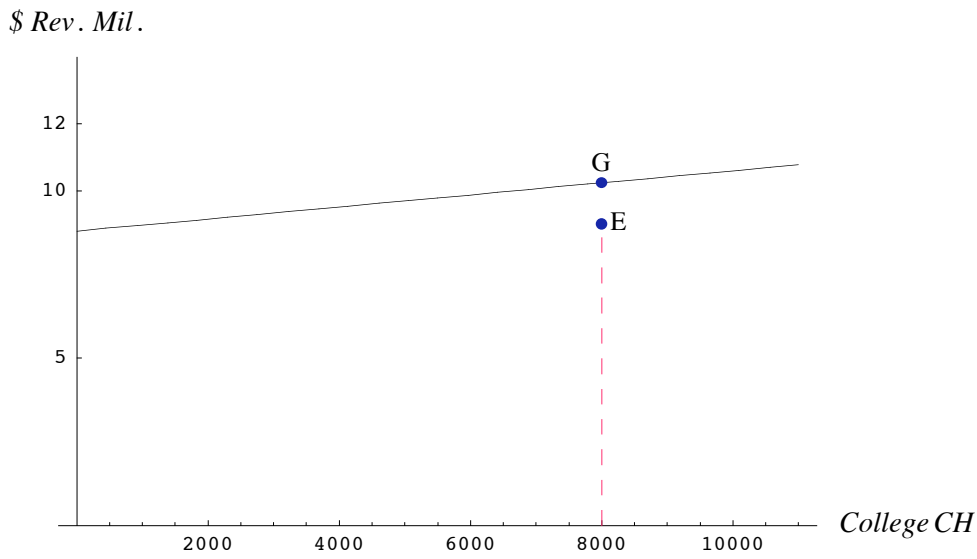


Figure 3: Net Income and Carry-Forward for College 3

Consider a simple example, illustrated in Figure 3.

We assume that College 3 has produced 8,000 credit hours, for a net income of \$10.31 million (Point G). But assume, too, that the college spends only \$9.0 million to produce the 8,000 hours (again this would be mainly professor and staff salary). This is shown as Point E in Figure 3. The *carry-forward* for this college in this year is the difference $\$10.31 - \$9.0 = \$1.31$ million.

To start the next year, College 3 would have \$10.8 million (the continuing state allocation) plus its \$1.31 million carry-forward¹⁰, for a total of \$12.11 million. It receives this revenue independently of its enrollment. As before, it also obtains revenue from enrollment and pays the tax according to the formula. In the following year, the revenue line in Figure 2 would lie parallel to that shown, but above it by \$1.31 million. Likewise, the college's net income for the second year would be everywhere greater by \$1.31 million than that shown in Figure 3. At present, there is no limit to the amount a college can bank in this way.

3. Incentives and Issues

The budget system presents deans with certain incentives. It also raises some interesting issues.

3.1 Decentralization of decision-making

College deans have both the incentive and the ability to do things efficiently. Most important decisions are now made at the academic unit level and deans have considerable scope for influencing the bottom line through enrollment and faculty management. Colleges may operate quite differently on many levels as they seek to manage their scarce resources.

The great bulk of current funds are now passed directly to academic units and placed under the deans' control. This is evident from the first column of Table

revenue goes to the service units to pay the costs associated with processing the budget, not to other academic units or the provost's office. This tax does not seem to be much of a deterrent.

¹⁰ We ignore the fact that some of this will be taxed away as noted in the previous footnote.

1. The provost's office retains almost none of these funds. It does have the power to "tax" for an academic initiative, but this so far has been minor in size and, in any case, is returned to the academic units on a merit basis.

3.2 Intertemporal allocation of resources

Saving is not penalized.¹¹ This allows deans to manage funds more efficiently across time periods. For example, if a particular hire falls through in the current year, the dean can use the funds to hire the same person in the future; or carry the funds forward for different expenditures. In principal, this feature is quite efficient. Among other things, it eliminates last-minute spending on low-priority items to avoid losing funds in future budget allocations.

3.3 Expansion incentive

From a purely financial perspective, each college has an incentive to expand their credit hours, since net income rises with *CH*. This puts colleges in competition with each other for the available classroom space and the available students. Although both are expandable in the long run, in the short run they are not. In this context, one might worry about a relaxation of standards (say, grade inflation) as a way to attract students from one college to another.

There is also an incentive to reduce the teacher-student ratio. By increasing class size (keeping the total credit-hours produced the same) net income can be raised.

3.4 State Allocation

The state allocation to each college was determined historically and is, to some extent, an arbitrary number. It was set originally to "make each college whole" following the transition to the current system. This means that, *at the time*, colleges with the largest deficits (so to speak) received the biggest transfers. There may have been good reasons for this (some teaching, like piano, requires very low credit-hours per professor). Although the overall state allocation has not grown much, in those years in which it has been increased, it has been distributed in a pro-rata manner to the academic units.

¹¹ See footnote 9, however. There is a small tax on saving since it increases next year's budget, an allocation factor.

3.5 Differences in Production Costs

Colleges face different costs of teaching. Credit hours produced in biology may be much more costly than English. It takes more hours of instruction to teach violin than economics. There are big differences across campus and these are not taken into account in the current tax system.

This can be seen with reference to Figure 2. The line labeled “Tax” has the same *slope* across all colleges, but the *height* of that line differs greatly. So in any given year, some colleges have no trouble earning positive net income, while others struggle. Indeed, if the *Fixed Tax* is high enough, a college may be in the red.

To some extent, this is taken into account by the differences in the state allocation payments (see Section 3.4 directly above). That is, those colleges that were struggling in 2003 were allocated a greater state subsidy. But the evidence suggests that some colleges continue to have difficulty, while others find it relatively easy to carry funds forward. This may warrant a shift in the tax structure to explicitly take into account the cost of delivering instruction.

3.6 Lending

Under the current system, a college can save, but it can't borrow. At certain times, some colleges may have difficulty keeping expenditure under their current net income, while others may have a significant carry-forward. Currently, there is no mechanism to allow the latter to “lend” funds to the former. Such a lending or trading mechanism might enhance overall university efficiency.

4. The Financial Impact of Grants

Research activity at the university would be almost impossible without grants. Their value to the institution is incalculable in providing the means to scientific inquiry.

In this section we explore one small aspect of the value of grants: how does a grant affect the finances of a college?

We consider the following hypothetical situation. A science professor whose salary is \$80,000 receives a grant to pay for 20% of her time plus necessary lab equipment in order to carry out a research project. Assume that the lab

equipment costs \$50,000. Her time is worth \$16,000 (that is, 20% of \$80,000). The total *direct cost* of this grant is \$66,000.

The grant also generates an *indirect cost payment* (IDC) which the funding agencies set to a fraction of the direct cost. In a sense, “indirect cost” is a misnomer. Whether or not costs are incurred, the funding agency pays the IDC to the university. It is simply a transfer meant to correspond roughly to overhead costs that may be born by the university. For FY 2006 – 2008, on the Columbia main campus, this fraction (indirect cost rate) for federal grants is set at 44.0%. For our hypothetical grant, the indirect cost comes to \$29,040 (that is, .44 * \$66,000). This is paid to the university on top of the \$66,000.

The University has decided that the college in which the grant originates gets a part of the indirect cost payment. It gets 43% of the indirect cost.¹² In our example, this comes to \$12,487.20 (that is, .43*\$29,040).

To continue the example, assume that the academic unit does have to occur some *actual overhead costs* of \$4,000 (say, to pay an adjunct to teach).

How does this affect the dean’s finances? The net grant revenue is:

$$(4) \quad \text{Net Grant Revenue} = \text{Grant Wages} + \text{IDC} - \text{Actual Overhead Cost}$$

$$(5) \quad \text{NGR} = \$16,000 + \$12,487.20 - \$4,000 = \$22,487.20$$

The reasoning is as follows. The \$12,487.20 corresponds to the new funds that come to the college as its part of the IDC transfer. It enters as “E” funds, but can be transferred to “A” funds. The \$16,000, on the other hand, *can be used in place of “A” funds* that were previously budgeted to the salary of the professor. These are now free funds that can be used at the discretion of the dean. Finally, the department must pay the \$4,000, so it comes off the total revenue.

What happens to the rest of the IDC payment? Another 43% of the total indirect cost goes to the USC Research Foundation for start-up costs, equipment matching, internal grants, and administration. In our example, this slice is also

¹² We discuss the other 57% below.

\$12,487.20. The remaining 14% — \$4,065.60 — goes to the Facilities Fund for new construction and renovation of existing buildings.¹³

Colleges that obtain grant dollars are helping the university as a whole. The 57% earned by the indirect cost of the grant benefits the entire university community. In the future, grant funds will become increasingly important for the operation of the university. One indicator that such funds are important to the finances of the colleges is that administrators at all levels encourage faculty to seek grants.

5. Directions for the Future

This document has explained, in simplified form, how the budget of the University of South Carolina works and highlighted some interesting features of that process. Necessarily, it skimmed over many interesting details of the system, and did not address some issues that may be of interest to certain faculty members.

Several areas of future inquiry come to mind. For example:

1. The Honors College has its own course designator (SCCC) and, therefore, revenue. It does not, however, have faculty. Different arrangements are made to make it operational. It may be useful to study the way it is funded in more detail.
2. There appears to be considerable variation across colleges in operating procedures. It would be interesting to compare them, since some may be more efficient or equitable than others.

2.1 One issue that generates a lot of discussion is the treatment of graduate student tuition. Since all funds now reside with deans, they decide whether or not to pay tuition and stipends for graduate students. Attempts to obtain graduate student tuition from grants is a contentious issue in some departments. It may result in a department's abandoning the attempt to recruit new graduate students.

¹³ It appears that the Facilities Fund cut will rise to 25% in the Fall Of 2006, with the other two portions reduced to 37.5%.

2.2 Another issue concerns procedures for travel and the purchase of software, books, or other discretionary expenditures connected to faculty performance.

2.3 Just as the provost has passed financial control to deans, some deans have passed control down to department chairs. Others have not. It may be useful to study the degree to which this is happening in the different colleges. Passing control down another level may be expected to enhance efficiency even more than the current system.

3. As grants loom larger, it may be useful to think about ways to design mechanisms that align the incentives of researchers, department chairs, deans, the provost, and the president. As it stands, it appears that administrators have a greater incentive than many faculty to seek funding from external agencies.

As a final remark, we wish to emphasize that considerable amount of budgetary information is available at the website referenced above. We have presented few facts and figures. Instead, we have tried to show how the system works in broad form. Our main conclusion is that colleges have considerable discretion in generating and spending income to accomplish the university's mission.

Submitted by the Faculty Budget Committee, February 2006

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Appendix 1
UNIVERSITY OF SOUTH CAROLINA
DESCRIPTION OF FUNDS

I. Current Funds

Unrestricted Funds – Current Funds derived from State Appropriations, Student Fees, Institutional Revenue, and Auxiliary Operations that are not restricted for specific purposes; Categories of unrestricted funds:

General – includes State Appropriations, Student Tuition and Fees (Educational and General), and Campus-Generated and Other General Fund sources

Fund : A

Departmental – funds that are normally unit-generated, involving Student Activities, Institutional Sales and Service Activities, and unrestricted designated activities, gifts, and scholarships

Funds: D-Student Activity Fees
 E-General Departmental
 R-Board of Trustees controlled funds from
 auxiliary funds

Auxiliary – self-supporting enterprises

Funds: B-Infirmery, Housing, Food Service
 C-Bookstore, Vending/Concessions, Athletics

Restricted Funds: funds primarily from gifts, grants and contracts that are designed for restricted uses, predominantly research and student scholarship aid

Funds: F-Federal
 G-State
 H-Local
 J-Commercial
 K-Philanthropic
 L-Restricted Other
 S-Scholarships (restricted or unrestricted)

II. Loan Funds

Used to account for resources that may be lent to students, provided by various sources-governmental appropriations or private donors

Fund: T

III. Endowment Funds

Funding source private giving, to include endowments and quasi-endowments

Fund: V

IV. Agency Funds

Funds of other entities or individuals held by University as custodian or fiscal agent

Fund: Z

V. Plant Funds

Unexpended Plant Funds – used to account for unexpended plant funds to acquire long-lived assets for institutional purposes

Fund: W

Investment in Plant – funds set aside for renewal and replacement of properties

Fund: Y

Retirement of Indebtedness – funds set aside for debt service charges and retirement of debt on institutional plant

Fund: X

Source: University of South Carolina Budget Office