Financial Resources

Introduction and background

SDSU’s financial resources currently come from many different sources with a variety of restrictions. State general funds as well as tuition and fees from students make up the majority of the university's resources. Other sources include student housing, food service, grants and contracts, and private donations. The mix of these financial resources in public higher education has changed over time. Historically, much of the cost of public higher education in the United States, until the 1960s and 1970s, was covered by state support with very little tuition charged to students. Over the last several decades, student tuition has increased, as a percentage, while state support has decreased. The percentage of state support varies greatly between states as well as between institutions. In South Dakota, state support on average for the Regental schools was 57% in FY02 and decreased to 41% by FY12. In FY15 and FY16, the state of South Dakota funded tuition freezes which helped the percentage of state support return to 44% for both years (S.D. Board of Regents, 2017). The decreasing percentage of state support has been a common trend in public higher education across the country.

Over the last 10 to 15 years, the use of special discipline fees has increased. These are fees charged to specific courses based on the prefix of the course. Only five SDSU academic programs utilized a special discipline fee (i.e. differential tuition) during the fiscal years 2002-2008. Over the next decade, the percentage of state support decreased, significant state funding budget cuts were absorbed, and the South Dakota Board of Regents imposed a decrease in the number of credit hours required for a baccalaureate degree from 128 to 120. These changes in addition to
the dropping of lab fees (charged on specific courses) for special discipline fees led to the number of programs utilizing a special discipline fee to grow to 21 in FY16. Special discipline fees have been used for both base and one-time funding needs. Since special discipline fees are credit hour-based, this change has resulted in greater financial sensitivity to fluctuations in enrollments (i.e. student credit hours). After experiencing record growth in student enrollments from 2001 to 2010, SDSU’s enrollment has since remained relatively flat. This is due in part to the lack of growth in the number of students graduating from public schools in South Dakota, rural Minnesota, Nebraska and Iowa (Zhang, 2016). This adversely affects both program-specific discipline fees and the general tuition pool.

Grants and contracts are another important source of financial resources for the university. This source has been volatile over the last decade with annual award amounts ranging from $24 million to $67 million (SD Board of Regents, 2017). The figure below shows rapid growth in FY07-FY10 when the university had particularly strong growth in federal earmarks. The drop beginning in FY11 was due in large part to the U.S. Congressional ban on federal earmarks.

Another source of financial resources is private gifts. Although fundraising for private gifts recently became more prominent, it has been a recognized and important tool for SDSU for many years. The SDSU Foundation was established in 1945 and has had two comprehensive campaigns. The first, “Visions for the Future,” was completed in 1998 and raised $52 million. The latest, “It Starts with State,” ran from Jan. 1, 2007, through April 25, 2013, and raised $255.7 million. Over the last decade, the SDSU campus facilities and infrastructure have been transformed with much of the cost covered by donations. In a Memorandum of Agreement dated May 2004 between the BOR and the Foundation, the mutually
supportive visions, values and objectives of SDSU and the Foundation were outlined. This MOA became the foundation for a Development Services Agreement that is currently in place which states a goal of having SDSU fund approximately 30% of the Foundation’s operating expenses through increased funding over FY14-FY18 for a total support amount of $1.55 million.

When the DSA was being drafted in FY13, the “It Starts with State” campaign had just concluded. University and Foundation leadership understood, and hoped to avoid, what some universities call “the plummet” – a significant drop in fundraising after a campaign is completed. In order to avoid the drop, the Foundation invested in infrastructure and support staff to steward long-time supporters and new donors acquired during “It Starts with State” as well as engage the next generation of donors and enhance prospect research capabilities. The “plummet” was avoided and private gifts have averaged more than $55 million per year since “It Starts with State” was completed.

Although there has been significant fluctuation in funding sources and additional costs associated with the transformation of campus, SDSU has continued to fund a balanced budget and maintain cash reserves at an acceptable level. SDSU implemented a decentralized budget model in FY15, designed to incentivize efficiencies and revenue generation in a campus environment of improved transparency in resource management. In addition to base operations, auxiliary systems (residential life, food service, parking, student union, wellness center) have maintained financial stability and been able to cover their operating expenses and respective bond payments. SDSU is now completing its third year in DBM, and operating in the DBM environment has resulted in significantly more budget knowledge and transparency among faculty, staff, and academic administrators. It has incentivized college and program-level entrepreneurship to address inefficiencies and generate new revenues. Not all core-unit colleges have achieved the same level of financial success under DBM; however, the regular financial reports for DBM have helped to inform core-unit colleges where organizational and structural changes might impact their financial performance. DBM has more directly impacted the core-unit colleges than the support units.

One measure of financial stability for the auxiliary system is the parity test, which calculates net revenue after operating expenses as a percentage of the debt service payments. This test shows the auxiliary system having increased from 1.33 in FY12 to 1.47 in FY17. A minimum ratio of 1.2 is required.

Compared to other states and the national average, South Dakota has been fortunate to have seen state support stabilized at 44%. Nationally the shift of paying for a public university degree has shifted from 60% state support in the 1970s to 34% today (Feldman, 2012). However, the drop from 57% to as low as 41% from FY02 to FY12 in South Dakota taught us that SDSU needs to be prepared for volatility in state funding and needs to be creative in its alternative funding sources. States have many factors impacting their ability to invest in higher education such as the daunting task of allocating tax revenue to fund a multitude of needs including health care, public safety and education. Higher
education often falls behind in funding because it is considered to have the ability to increase pricing by raising tuition and fees while health care, public safety and K-12 education do not.

As the percentage of SDSU’s revenue coming from tuition has increased, the funding volatility as a result of enrollment changes has also increased. The latest projections for graduating seniors in South Dakota show growth beginning in 2019. Some of this growth will come from new and growing immigrant populations. In addition to growing immigrant populations, the university’s enrollment and the state’s economy would benefit from increasing access to under-represented and low socio-economic individuals. Increasing access and support for these individuals will take an investment in financial resources, but will increase diversity, access, and inclusion which is an important part of the University’s core values. SDSU’s financial resource from tuition will continue to be dependent on our enrollment and ability to recruit and retain students.

SDSU’s priorities are a significant driver for determining what donors will support. The university wanted and needed new, state-of-the-art facilities for its engaging campus. Since mid-2000 donors have contributed more than $177 million in private funds for 17 different building projects across multiple colleges as well as athletics. These facilities have had a significant positive impact on recruiting high-performing students, faculty, and staff to SDSU.

Lessons learned

1. SDSU needs to be prepared for volatility in state funding and needs to be creative in its alternative funding sources.
2. The university’s increased dependence on tuition revenue will increase the impact that student recruitment, retention, and enrollment have on its financial resources.
3. The volatility of grants and contracts can have a large impact on the university’s financial resources.
4. Private giving is a growing part of the university’s resources, and investments in this area have increased the resource base.
5. The DBM has increased budget knowledge, transparency, and institutional decision-making, but not all units have had the same financial impact of the model change.

National trends and external picture:

According to The Pew Charitable Trusts (2014), many states have not recovered from the 2007 recession. Tax revenue, employment rates, ability to cover operating expenses, and unfunded public pension and retiree health care liabilities continue to challenge the numerous state budgets which still lag below “recession-era peaks.” It is difficult for some states to anticipate and manage their budgets due to tax revenue “surprise shortfalls or windfalls” from year to year. South Dakota had the least volatility in tax revenue swings over the last several years after removing the effects of tax policy changes.
The national decrease in state support for higher education and the national economic trends discussed have increased the pressure on higher education finance. In addition, increased tuition and increased student loan concerns nationally have fueled pressure to keep tuition costs at universities low. Universities are increasingly using differential tuition to differentiate the costs of their majors, and this trend is expected to increase as state support continues to decrease (Nelson, 2008). An increasing number of universities are changing to a Responsibility Centered Management model (i.e., DBM) in response to the changes in higher education financing.

Even given these national trends and pressures, higher education is still a good investment. According to an analysis done by the Pew Research Center, 2011, “the typical college graduate earns an estimated $650,000 more than the typical high school graduate over the course of a 40-year work life.” This number increases when individuals obtain advanced degrees and also varies by undergraduate fields of study. Additional advantages to earning a degree include more stable employment with more hours and a decreased likelihood of unemployment (Pew Research Center, 2011).

**Strategic themes**

SDSU’s future success will depend much on how it strategically uses its changing financial resources. This includes:

1. Being prepared for continued volatility in state funding
2. Analyzing its pricing structure and strategic use of differential tuition/program fees
3. Growing and diversifying its research portfolio by agency and by source (federal, state, private) to reduce volatility in funding
4. Managing costs, analyzing efficiencies, and making strategic investments for financial stability
5. Diversifying and increasing its overall funding portfolio to provide increased financial stability

**Future plans**

1. Develop a recruitment/enrollment strategy for the changing demographics of graduating seniors in South Dakota and the upper Great Plains.
2. Identify areas for investment and cost savings by conducting an analysis of academic programs for efficiency and relevancy. This information should be used to consider program realignments, consolidations or cuts. Similar programmatic analyses with unit specific metrics should also be conducted for the support units.
3. Identify ways to grow or maintain our current resources, such as identifying what new no/low-cost programs or certificates could attract new student credit hours.
4. Determine where our market niche is, or could be, taking into account cost, market demands, stakeholder expectations, and resources.
5. Increase research funding and recovered F&A.
6. Increase entrepreneurial activity across SDSU via trainings, workshops, facility and land leases and public-private partnerships.
7. Strategically grow our private fundraising, increase SDSU’s endowment and planned gifts.
8. Account for and align our limited resources with the goals of SDSU’s strategic plan.
Works Cited:


