

COLLEGE & UNIVERSITY FINANCES



Doubling the Numbers by 2020:
Meeting the Challenges of Postsecondary Reform

BOARD BREAKFAST ROUNDTABLE DISCUSSIONS

Issue:

Board members must do their best to ensure that their institution is financed adequately to meet its mission and public responsibilities, whether the source of funds is student tuition and fees; state dollars; federal support; or charitable contributions. Board members must help develop a pricing structure that preserves both educational quality and affordability. State appropriations have not kept pace with enrollment growth and inflationary cost increases, requiring board advocacy for better state funding. Also, board members are responsible for giving and persuading others to give.

Best Practices:

- The role of the board in institutional finance is long-range planning, annual budget development, and ensuring proper fiscal audits and policies. A governing board can help ensure the institution's financial viability by giving the president the responsibility and authority to lead the institution on a day-to-day basis, while monitoring progress and results. As the primary fiduciaries of the institution, the board must maintain fiscal integrity and ensure rigorous compliance with applicable federal, state, and local laws. To carry out their fiduciary responsibilities, board members must monitor all aspects of their institution's financial condition and management, including its auditing processes, debt-financing arrangements, deferred-maintenance needs, staffing structures, compensation policies and practices, construction and renovation priorities, and fundraising priorities.
- The economics of higher education are complex because of the diversity of revenue streams and missions of colleges and universities. Trustees should insist that administrators demystify financial reports by rendering them in understandable formats. They should ask for help in comprehending financial statements, and they should periodically ask outside experts to review key management functions. They also should ask senior administrators to gather comparative data from peer institutions, especially on issues that affect the institution's competitive posture, academic standing, or cost structures. To help steer a college or university in the direction of quality and value, trustees need to untangle the language of price, cost and revenue so they can focus on how the institution uses its resources to achieve core functions.
- Given rising concerns over college affordability, institutional leaders will need to incorporate new ways of managing resources to increase productivity—to improve quality and performance—without charging more or spending more. Measuring productivity means looking at total costs and how they are used to produce “outcomes” such as graduates, trained workers, regional stewardship and new knowledge. Understanding productivity requires looking simultaneously at access to education, the quality of the educational experience, and the use of financial and other resources. Cost-constraint raises understandable concerns among campus constituencies, but a focus on administrative and back-office functions can help. Almost every institution can save money by consolidating operations, making better use of technology, engaging in competitive contracting practices, and joining consortia. Explaining how such costs will be cut will help defuse fears that productivity is a code word for dismantling the institution's core programs.
- All board members need to understand the importance of their fundraising role to the institution. Board member orientation should discuss this role and ensure that new members understand the expectation that they will contribute to the institution's bottom line with their time, talent, and, if possible, their financial resources. The board should regularly review reports on the aggregate unrestricted and restricted gifts it has raised and track these numbers over time. The types of gifts sought should help meet the

long-term needs of the institution, especially the restricted gifts. Trustees are also expected to be public advocates for the institution with local, state, and federal policymakers on funding issues.

Questions for Boards to Consider:

- Does the board review annual budget requests? Are the reviews based on the institution's mission and purpose?
- How can the board best achieve "financial literacy" while recognizing that not all board members need to be "financially literate"?
- What have been the trends in full cost to the institution per student? What have been the major pressures in spending?
- What have been the revenue trends over the past ten years? Are nonrestricted funds from students, donors, and others keeping pace with spending? What about state appropriations?
- Where will the institution be financially in the next decade if it continues the patterns of the last decade in enrollments, prices, tuition discounting, costs, and student-learning outcomes?
- What is the mix of low, moderate, and high-income students in your institution, and do these proportions fit the mission of the institution? What are students' levels of indebtedness when they leave your institution?
- Are all trustees taking a leadership role in fundraising appropriate to their means? Are trustees actively involved in fundraising for the institution? Is this fundraising led by the financial needs and mission of the institution?

Resources from AGB:

- "A Board's Primer on Bond Ratings." *Trusteeship (AGB)*. July/August 2007
- Burlock, Tracey J., and Kent John Chabotar. *Board Basics: Financial Responsibilities*. Stock #205.
- Chabotar, Kent J. *Strategic Finance Planning and Budgeting for Boards, Chief Executives, and Finance Officers*. 2006.
- Daigneau, William A. *Planning and Managing the Campus Facilities Portfolio*. APPA and NACUBO, 2003. Stock #085.
- McCarthy, John H., and Robert M. Turner. *Board Basics: Understanding Financial Statements*. Stock #214.
- Pocock, J. W. *Fund-Raising Leadership: A Guide for College and University Boards*. 1989. Stock #152.
- Wellman, Jane V. *Strengthening Board Capacity for Overseeing College Costs*. 2006.
- Yoder, Jay. *Endowment Management: A Practical Guide*. 2004. Stock #025.

Sources:

- Excerpted from *Trustee Responsibilities: A Guide for Governing Boards of Public Institutions (AGB: 1997)*, and *Strengthening Board Capacity for Overseeing College Costs* by Jane V. Wellman (AGB: 2006).

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