CHAPTER 7—BUDGET AND FINANCE

The charge was to describe and evaluate budget and finance issues. The committee concentrated on two separate, but related, topics: first, the university's fiscal health and second, the budget process. The first task has been easier because the overall fiscal health of the university is sound, particularly since the mid 1990s. The second has been more difficult: budgets are among the most political of documents, and affect the answer to the question, "What should New School University be?" Since committee members represented nearly every major university constituency, disagreements were bound to occur. Nevertheless, the committee deemed the interchange and learning it generated highly constructive and informative. All agreed that the budget and budget process should serve as a means to an end, and that the most important end is the achievement of educational policy and educational quality. In fact, one of our main recommendations regarding process is that the university should foster, on an on-going basis, the kind of dialogue that has taken place in this committee, rather than once a decade in preparation for the Middle States review.

Committee Activities and Structure of the Report

The members of the committee represent members of the faculty and administration from five of the eight schools as well as university administrators involved with the university's most important budget, finance and accounting aspects. There was one student member. The committee had five, two-hour meetings (one of which was with President Kerrey) and considerable interchange via email.

The initial questions to the committee and cover memo are available as exhibits. In addition, initial discussion of the questions led the committee to develop a new set of questions posed to leaders of all eight schools. Seven deans responded in considerable detail and these responses formed the basis of the committee's most critical discussions. The memo was later sent to the directors of university centers, primarily research centers. Nearly all responded.

Part 1 of the report presents information and analysis on the state of the university's budget and fiscal health as well as a description of budget and finance rules and processes. While this section does refer to budget processes, the term in the first section is used in a purely descriptive sense. Later on we describe and analyze key findings related to the process of budgeting and finance. In Part 2, we expand the term "process" to include the political connotations implied above.

PART 1: BUDGET, FINANCE AND FISCAL HEALTH

New School University has a history of balanced and growing budgets, and the endowment has grown continuously over the past 20 years.[36] This has been true despite continuous challenges of growth and change in academic programs and the high costs of doing business in New York City. In fact, New School has been a budget and finance innovator, particularly in capital finance; recently, the university was written up as a case study by Moody's investor services for the way the institution used capital assets as part of its bond rating. As a result of this innovation, combined with consistently strong budget and finance performance, the university's bond rating was upgraded in Spring 2001 by Moody's to A3 from Baa1. Arguably, this is the strongest and most objective indicator of the institution's overall fiscal health.[37]

The committee examined data on:

- The annual budget process: budget development, budget allocation rules, financial controls and budget monitoring;
- Long-term financial planning: school and university-wide activities; results in the 1990s; planning for the future; linkage of the capital; and operating budgets;
- Key indicators of financial status and recent trends;
- The university's current operating budget: Revenues by sources and Expenses by type and activity; and
- Enrollment information and trends.

Budget Process

Budget Development. The budget development process is structured to achieve two goals. The first goal is to provide a careful analysis of all of the revenue and expense factors that could impact the university to make sure that the budget remains in balance. The second goal is to provide an opportunity for all constituencies to understand and comment on the development of the budget before adoption. As discussed in Section 2, disagreement exists among committee members about the achievement of the second goal.

Table 1 shows the process of preparing and developing the budget each year. As indicated, budget discussion for the next fiscal year begins in the early fall semester. Once enrollment is known, guidelines and assumptions for developing the next year's budget are determined. While these guidelines and assumptions often change, they provide a starting point for computing revenues and expenses. The key guidelines and assumptions appear on Table 2.[38]

[36] In 1982, the endowment was $5 million. In 1997 it was $59 million; in 1999, $80 million; and in 2002, $93 million.

[37] The report from Moody's announcing the upgrade is available upon request.

[38] Based upon the guidelines and assumptions, a preliminary operating budget is prepared in early October. The budget is revised three more times before it is adopted in April. The first revision, in December, is to incorporate changes in revenue projections – particularly enrollment and tuition rate increases – proposed by the divisions during internal budget meetings that are held in November. The second revision, in February, updates enrollment forecasts following Spring enrollment. The final budget reflects additional changes proposed by the schools during a second round of budget meetings, which are held in March.

Table 1. University Budget Development Process

	September	October	November	December	January	February	March	April	May/June
Office of Budget & Planning Univ. Budget Committee	G&A Proposed for new year.	Draft budget for the new year	Meetings held with schools on draft	Revised draft budget prepared based on revenue		Budget updated for Spring enrollment	Meetings held with schools and officers	Final budget prepared.	Budget detail loaded into system
Schools		Receive budget “marks”	Submit memo on budget, focus on enrollment & revenue			Receive revised budget “marks” revised budget	Submit memo on budget, focus on expenses, improvements, and salary policy		Budget officers work on budget detail.
Officers		Receive budget “marks”	Submit memo on budget, focus on revenues			Receive revised budget “marks”	Submit memo on budget, focus on expenses, improvements, and salary policy		Officers work on budget details
Board review and approval		BPC Reviews G&A and preliminary budget Full Board Receives report on preliminary outlook for new budget.		BPC Reviews revised budget based on school revenue proposals--Approves degree tuition, discount & dorm rates	Exec. Cmte. Approves degree tuition, discount & dorm rates	BP Reviews budget with focus on expenses Improvements proposed for funding		BPC Approves budget Exec. Cmte approves budget	Full Board Approves budget at May meeting.

Review by others									
Deans & ***Officers***	Reviews G&A	***Deans and Officers receive updates on budget development throughout the year.***							
Faculty			G&A discussed With FAC *				FAC provided update on budget		
Students			G&A discussed with SAC *				SAC provided update		
University Seminar						University Seminar on the Budget 3/7 in 02			

* FAC, Faculty Advisory Committee, now Faculty/President’s Committee; SAC, Student Advisory Committee; G&A, Budget Guidelines and Assumptions; BPC, Board of Trustees Budget Planning Committee

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Throughout the process, any other information that might impact the budget – changing interest rates or energy costs, for example – are used to update revenue and expense projections.

Table 2. Operating Budget Assumptions and Guidelines

		Actual 1998-99	Actual 1999-00	Actual 2000-01	Budget 2001-02	Impact of 1%
1	Inflation percentage rate	1.7	2.5	3.1	2.5	1,540
2	Annual budget increase percentages	9.9	7.3	10.1	7.2	1,540
3	Fall enrollment percentages					
	a. Degree	5.4	3.7	3.6	2.1	1,125
	b. CE	- 3.3	2.8	- 5.2	-14.2	170
4	Tuition percentage increases*					
	a. Degree	5.9/6.0	5.5/6.1	5.0/5.2	4.5/5.1/4.8	1,125
	b. CE	4.9	3.3	2.5/3.5	2.5/3.8/3.6	170
5	Dormitory percentage increase**	5.0	5.0	8.0	7.0/3.0	93
6	University unrest. Fund-raising %	0.0	-11.7	11.7	4.2	13
7	Endowment spending rate percentage	5.0	5.0	5.0	5.0	90
8	Salary increase percentages***	3.2/3.2	2.8/3.8	3.3/4.2	3.3/4.2	740
	a. Full-time faculty/all staff	3.0/3.0	2.5/3.5	3.0/3.9	3.0/4.0	500
	b. Part-time faculty	5.0/4.9	4.0/4.9	4.0/4.4	4.0/4.2	240
9	Fringe benefit increase percentages	12.7	9.6	10.1	8.7	175
10	Other expense increase percentage	2.5	2.5	2.5	2.6	450
11	Tuition discount rate percentage	23.4	23.9	23.9	24.7	1,020
12	Use of reserves/surplus ($000)****	650	650	775	580	--

* For 1998/99 through 2000/01, the first number was the standard rate during budget development, the second the final policy. For 2001/02, the first number is the standard policy, the second the proposed increase including that required to eliminate fees and the third is the proposed increase excluding increases for eliminating fees.

** In 2001/02, the first figure is the standard increase, the second a surcharge being added in some facilities.

*** For 1998-99 through 2000-01, the first number was the standard rate during budget development; the second the final policy. The basis for computing the discount rate changes in 2001-02.

****Shown is the amount budgeted each year; actual use of these funds has been less than budgeted.

Consultation occurs during the year with various groups. Table 1 provides a summary of major presentations on the university-wide budget to the Board of Trustees, faculty, students, and staff. One finding is that while the university-wide process is reasonably well understood, far less is known about school budgeting. The committee recommends that regular, formal meetings of key budget staff from the different schools be convened in order to increase institutional knowledge of key budgeting issues, and to foster budget and finance cooperation and coordination between schools to support inter-divisional academic cooperation and coordination.

The committee learned a great deal about the budget processes in the individual schools. We noted considerable differences across divisions, some of which have budget processes that appear well organized and well thought out, often working in conjunction with a five-year plan required by the university. In other divisions, the process seems more disorganized and short term. Central-school agreement on broad planning parameters could be improved. Some members expressed concern that more students and faculty were not consulted formally and directly about budgeting. In addition, several committee members and deans felt that parts of the budgeting cycle (e.g., for faculty hiring) should run on two-year rather than one-year cycles. Some suggested a total switch to a two-year budget cycle. Finally, several deans felt that the actual yearly budget process takes too long and that a disconnect exists between the September requests and July allocations.

Budget Allocation Rules. The university has had written rules to determine the allocation of funds to the academic schools since 1990. The initial set of rules pertained to the allocation of funds generated from enrollment growth and from tuition rate increases that differed from the university-wide standard.[39] Between 1990 and 1996, there were minor adjustments in the percentage of revenues from enrollment allocated to the schools, and new guidelines were established for the allocation of indirect cost recoveries.

In 1998 a more complete revision was made to the budget rules following a year-long strategic planning discussion conducted by the Board of Trustees. To encourage enrollment growth, the revised rules increased school allocations for enrollment growth and provided funds for improvements sooner than under the previous guidelines. In addition, the rules included specific penalties for missing enrollment targets and discussed the allocation of funds from gifts. These rules follow practices that had been in place for a number of years that were not previously written down.

President Kerrey has recently developed significant changes to the university's budget rules following some consultation with deans. While some deans expressed frustration over the level of consultation, the final rules, approved by the Board of Trustees, do appear to have changed as a result of their input. The new rules are described in an exhibit. (Section 2 discusses the rules in greater detail.) In addition, schools have developed five-year plans to show the impact of the proposed new rules.

[39] Note that, as discussed in more detail in the next section, some committee members objected to the existence of such university-wide standards, arguing that tuition and enrollment growth standards should be targeted to fit the missions of the individual divisions. One committee member argued that the budget rules are being used in place of a university financial planning process to reallocate resources, calling it a "gap in the decision-making process."

Financial Controls and Budget Monitoring. The university has established procedures for monitoring revenues and tracking the spending of each academic and administrative unit to keep the budget in balance. One major reason the university has successfully balanced its budget each year since the early 1980s is the early identification of financial problems and quick action taken to resolve them.[40] On a day-to-day basis, the administration has established procedures to control and monitor spending such as:

- Review of job announcements and hiring documents (PRAs) for all full-time and many part-time positions, by both school and university budget staff, to verify funding;
- Monthly spending rate reports, completed between October and March, to identify areas where expenses could exceed budget;
- Detailed expense forecasts the last three months of the year to identify expense problems and determine solutions prior to year-end;
- Automated budget checking, which flags budget shortfalls when an encumbrance is entered into the accounting system; and
- Regular tracking of restricted account balances.

The administration was not able to follow the usual budget monitoring in the early part of 2001-02 because its new financial system, BANNER, was being implemented. The new system began operating in July 2001, and it has taken time to convert all processes and procedures. However, the administration asserts these problems are being resolved and reports are now provided to the units. Problems associated with the change over to BANNER have been considerable, causing budget, finance, and accounting difficulties within the schools. The university administration argues the problems are temporary, and the school/division staff hope this is true but await more evidence. The pay-off should be high, however. The switch to Banner included a reorganization of the university's financial chart of accounts. The new chart organizes the finances of the university more consistently across the schools and provides a level of detail to permit more in-depth analysis.

Long-term Financial and Academic Planning

Activities in the 1990s. In the early 1990s, New School University began its first, structured process of long-term financial and academic planning, consisting of three components: school plans, information technology and capital plans, and a university strategic planning exercise.

School Plans. Between 1994 and 1998, five-year plans were prepared by each of the academic schools (except the Actors Studio, which was new). Prepared by the deans, the plans projected

[40] The university's experience during the first half of the 2001-02 fiscal year is an example of this point. By the end of September (in the wake of the World Trade Center terror attacks), university administration had identified potential revenue problems of close to $4 million from tuition revenue shortfalls, lower cash float income, and dormitory vacancies. Under the current budget rules, schools that missed their revenue targets had their budgets cut. By the beginning of December, actions had been taken to completely cover the revenue problem and hold some funds in the contingency as protection against further revenues declines this fiscal year.

enrollment, identified expenses, and highlighted development opportunities. Each plan was presented to the schools' Board of Governors and the university's Board of Trustees.

The school planning process was beneficial, letting each school examine its programs, priorities, and needs. Unfortunately, however, many proposals were never implemented. A large number of the improvement priorities highlighted in the plans required significant funds for investment, but the funds were not available.

Technology and Capital Plans. The board approved an information technology plan in 1995. The plan discussed the university's needs for improved computing laboratories and the development of the network. It laid the groundwork for the creation of the computing center at 55 West 13th Street and the wiring of the university.

The Master Capital Plan, approved in 1996, identified facilities priorities. That plan had the objective of establishing physical identities for each school and, at the same time, developing facilities for university services. Student housing emerged as a priority along with the need to expand funding for deferred maintenance. Considerable progress has been made and it is now time to update the plan, connecting it to the operating budget, enrollment growth, and investments to strengthen academic programs.

University Strategic Planning. In the mid-1990s, the small margin in the operating budget left few funds for investments to either improve quality or future finances. To examine this problem and propose solutions, a strategic planning committee of the Board of Trustees Budget Planning Committee was formed in 1997. During a ten-month period, that group reviewed enrollment patterns, net incomes of the academic schools and departments, and marginal revenues and costs of each programs, among other factors.

At the review's conclusion, the Strategic Planning Committee (SPC) noted that, while the university's enrollment should grow to improve finances, not all growth was beneficial for either educational quality or the budget. To guide decisions about investments in current and new programs, the SPC produced financial criteria for program expansion and contraction that were approved by the board in May 1998. The SPC also made recommendations about other actions to improve its finances the institution should take, including better use of classrooms, adding new dormitories to encourage undergraduate growth, expanding distance learning, and eliminating continuing education programs that used significant space, but produced little, if any, net revenue.

The SPC reviewed a model of enrollment growth that it hoped could be achieved over a five-year period, if the criteria were followed and funds were re-invested to encourage growth. That plan called for adding about 300 students over a five-year period, ending in fall 2002. By implementing the criteria—and with a bit of good luck from a robust economy and growing numbers of college-age students—the university reached the five-year enrollment goal in three years.[41]

Planning for the Future. Last year, the first year of the Kerrey administration, the university asked schools to prepare comprehensive strategic plans. The purpose is for each school to review its mission, goals, and objectives and develop initiatives to implement over the next five years to improve quality. A template developed requests evaluations of student quality, market

[41] In May, 2000, the board was provided an update on achieving the goals of the strategic planning process. The board re-affirmed its commitment to the strategic plan goals and re-enforced its interest in improving the uiversity's financial condition by expanding revenues and growing reserves. Our subcommittee found financial criteria for expanding or contracting programs useful as very general guidelines, but lacking in terms of implementation details for both university and school administrators.

conditions, academic program quality, administrative needs, and development opportunities, as well as discussion of financial issues. Parsons has completed its plan, which was recently presented to the Parsons Board of Governors. The self-study process has enabled all schools to think about these issues and clarify goals. Building on the new mission statements and *Academic Plans*, the five-year planning for the other schools will commence again in 2003.

New School University Operating Budget, 2001/02

The university's 2001-02 operating budget totals $151.6 million. This total includes funds raised and spent, for restricted purposes (i.e., grants and endowment) as well as unrestricted funds, such as tuition, which is used for general purposes. In the last four years, unrestricted net-assets have increased by $20 million, financial conditions have improved, the endowment has grown to about $90 million dollars, and tuition increases have been more modest than in previous years.

External reviews of the budget, including annual financial statement, look at the university as a single entity, not as eight school budgets. The following sub-sections provide revenues and expenses for the entire institution, and some comparisons to private university averages across the United States. Comparable models are difficult to find for the New School.

<u>University Revenues</u>. Tuition and fees are, by far, the largest source of funding for the university constituting close to 75% of all revenues, net of financial aid. Other major sources of funds are shown on Table 3 as compared to averages for all private universities. While recognizing that the university does not have hard sciences that generate the largest grant and research revenue, it does appear the university could raise the proportion of revenues coming from grants and funded research. This is particularly true given the high quality of research and entrepreneurial faculty in several divisions. As indicated in the next section, the university would need to approve its accounting, management and other support services for research and grant funding in order to improve this revenue stream.

Table 4 shows university revenues by source, as presented to the Board of Trustees. Table 4 shows a tuition discount of almost $27 million. However, this figure excludes endowed scholarship funds and gifts. Including funds from all sources, the university's degree tuition discount is currently 24.7%. There was considerable discussion about the level of this discount rate, with some members feeling that it is too high. In addition there was considerable discussion regarding how the rate is set for different divisions. In general, the central administration contends that divisions have considerable control to set their own discount rates, while divisions feel that they are largely told by the administration what the rate will be. This is part of the central-divisional relations we discuss in the next section.

<u>University Expenses</u>. There are two ways to look at the university's expenses. The first is by type of expense, such as full-time salaries, fringe benefits, supplies and other expenses, etc. Table 5 shows of projection of the 2001-02 broken down by expense type. As shown, approximately two-thirds of the university's funds are spent on staff and salaries.

Table 3. Revenue Comparisons - Percentages

		New School University	National Private University Average*
1	Tuition and Fees	74.2	51.0
2	Governmental aid	0.8	6.4
3	Gifts, grants, contracts	10.8	25.7
4	Endowment	3.0	6.6
5	Other	11.2	10.3

* Percentages calculated excluding hospital and independent operation revenues.
Source: *U.S. Department of Education, National Center for Education Statistics.* Integrated Postsecondary Education Data System (IPEDS), February 1999 report.

Table 4. 2001-02 Revenues

		$ Millions	Per Cent of Budget
1	Tuition and fees		
	a. Gross T&F	139.2	91.8%
	b. Tuition discount	-26.7	-17.6%
	c. Net tuition and fees	112.5	74.2%
2	School non-tuition revenues	0.8	0.5%
3	State aid	1.2	0.8%
4	Central gifts	1.3	0.9%
5	Indirect cost recovery	0.3	0.2%
6	Cash Float	1.5	1.0%
7	Dormitories	8.8	5.8%
8	Health Center	4.5	3.0%
9	Building rentals	0.8	0.5%
10	Endowment	4.5	3.0%
11	Expendable gifts	6.5	4.3%
12	Fund for New Initiatives	0.1	0.1%
13	Research & Other	8.2	5.4%
14	Prior year savings	0.6	0.4%
15	**Total Revenues**	**151.6**	**100.0%**

Table 5. Projected Expenses, 2001-02

		$ Millions	Per Cent of Total
1	Salaries		
	a. Faculty (inc. teaching/research assistants)	30.0	20%
	b. Administrative, maintenance, security, clerical	53.6	35%
	c. Total Salaries	**83.6**	**55%**
2	Fringe Benefits		
	a. Social security	4.9	3%
	b. Employee health insurance (net univ. cost)	5.4	4%
	c. Pensions	3.2	2%
	d. Other	3.1	2%
	e. Total Fringe Benefits	**16.6**	**11%**
	Total Salaries and Benefits	**100.2**	**66%**
3	Other Expense Items		
	a. Debt Service and Equipment Leases	7.0	5%
	b. Space rental	7.5	5%
	c. Cleaning services	2.2	1%
	d. Advertising	3.5	2%
	e. Utilities	2.4	2%
	f. Catalogues and publications	2.6	2%
	g. Postage	1.6	1%
	h. Income sharing with other organizations	1.6	1%
	i. Supplies	2.8	2%
	j. Telephone	1.4	1%
	k. Building and equipment repairs, maintenance	1.8	1%
	l. Insurance	1.9	1%
	m. Library acquisitions and consortium	1.1	1%
	n. Equipment and furniture	2.0	1%
	o. Commencement, events & other entertainment	2.0	1%
	p. Travel	1.9	1%
	q. Legal, accounting, and data processing fees	1.4	1%
	r. Bad debts	0.7	*
	s. Professional/Freelance/Consultants	4.3	3%
	t. All other	**1.7**	**1%**
	u. Total Other Expense Items	**51.4**	**34%**
4	**Total University Budget**	**151.6**	

*Less than 1% of the university budget

Table 6. Expenses by Activity
2000-01

		New School University Percent	National Private Average Percent*
1	Instruction and Research	42.9%	46.7%
2	Academic Support	15.0%	8.0%
3	Student Services	6.7%	6.7%
4	Institutional Support	19.1%	13.5%
5	Operation of Plant	9.5%	7.8%
6	Auxilliary enterprises	5.9%	12.0%
7	Other	0.9%	5.3%

*Excludes hospitals, independent operations and financial aid.
Source: *U.S. Department of Education, National Center for Education Statistics*. Integrated Postsecondary Education Data System (IPEDS), 1995-96 February 1999.

The second way to review expenses is by activity, which includes categories such as instruction, research, academic support activities, and institutional support activities. These groupings are provided on the financial statement of every college and university, following guidelines established by the National Associate of College and University Business Officers (NACUBO). This consistency permits comparisons of New School University expenses with other institutions. The proportion of spending by activity as compared to other institutions appears on Table 6. (Please note that the spending for the university in this case is for the 2000/01 fiscal year rather than 2001-02.) Of note, the spending on instruction and research is slightly below the national average while academic support is significantly above. As discussed elsewhere in this report, the university should examine ways to close these gaps as much as possible given the overall make-up of the institution. The university also has relatively high costs for operation of plant, especially considering that unlike many campuses, there are no sports facilities or significant open space. This reflects the high cost of operating in New York City. As discussed below, the high level of institutional support (which is largely central administrative costs) should continue to be examined.

Overarching Budget Assessment

As a university, ten-year budget results have been sound and place the university on a solid foundation. This is especially true given, first of all, how tuition-driven the budget is compared to other private universities nationally and secondly, that New School only became a university in 1997. Before that, when it was known as the New School for Social Research, the institution was a loosely tied set of eight independent entities, or divisions, that shared a central administration for matters of convenience, fiscal stability, and economies of scale. The committee agreed that the institution's sound fiscal results are also due, in part, to the budget process, suggesting that the process, too, has served the university well.

There was, understandably, considerably less agreement regarding how well the budget process has historically served the separate schools. In addition, committee members were both less sanguine and more divided about the newest set of budget rules and how these rules will meet the necessary goal of making the budget and budget process supporting elements in the institution's functioning more as a university than as eight associated divisions. The "united university" must be fiscally sound, and must also be true to the values and mission of the institution as addressed in detail by other self-study reports. As one budget officer aptly said, "we remain with this dilemma on how to compare/contrast fiscal health with institutional well being." All committee members agreed that the budget and the process by which it is developed could—and should be—more effective at supporting efforts to support New School values and the missions of its academic schools and programs. Disagreement exists, however, as to how. Only through more constructive, open, and transparent dialogues than are now taking place can this highest of budget and finance goals be achieved. That is the subject to which we now turn in the next section.

PART 2: INTER-SCHOOL AND UNIVERSITY-SCHOOL BUDGET RELATIONS

Becoming a university in 1997 was the end of one long process and the beginning of another. This fact is just as true for budget and finance as for other aspects of university life. By far the theme that most dominated the committee discussions was the recent adoption of new budget rules and, in particular, the fact that they encourage a reduction in the cross-subsidies between the different schools. Other topics of importance included university-school relations (including charges for overhead); capital planning and budgeting; accounting standards and research grant management; and inter-divisional relations (especially for sharing students).

<u>New Budget Rules</u>. The eight schools and colleges can be categorized in fiscal terms as "deficit" and "surplus" schools.[42] Under the new budget rules, the university administration adopted a "float on your own bottom" philosophy for its divisions, with severe consequences for schools that do not balance their own budgets by the 2003-04 fiscal year. Needless to say, the intentions of these rules have been welcomed by so-called surplus schools, whose members expressed frustration at the under investment that has occurred in their schools over the years.[43]

[42] This is the language that has become vernacular across the university. It has also been used in official documents by the central administration. As discussed below, there was not agreement among subcommittee members if the budget and accounting rules used by the central administration to derive the divisional budget surpluses and deficits were either accurate or fair. Parsons, the New School and Lang College are surplus divisions, while Milano, the Graduate Faculty, Actors Studio, Mannes and Jazz are deficit divisions.

[43] In both dollar and percentage terms, the largest surplus division in Parsons, which currently transfers about $11 million annually to the central administration and other divisions. This fact has, according to subcommittee members from Parsons, put the division at a great disadvantage with respect to other design schools that form Parsons' primary competition and which have invested heavily in recent years is both computing technology and faculty.

They also, however, expressed doubts that the rules themselves were specific enough to achieve their intentions.[44] Of course, members from deficit schools expressed great fear and frustration over the new rules, which they see as a threat to their very existence.

Amidst this tense backdrop, all committee members and each of deans from whom we sought input stressed that the primary goal of the budget process should be to foster academic and teaching excellence. But sharp disagreements were found between deans responsible for surplus and deficit units. The dean of one surplus school captured the general feeling: “It is vital that the new budget guidelines be adopted to ensure the proper funding of the school and support its academic and fiscal success in the future.” The same dean wrote “We’re concerned that the new budget rules may split the schools into the have and have-nots; however, [our school] supports the changing of the rules and the adoption of the balance of trade. It is vital that the true fiscal condition of each school is known and that the appropriate investments be made accordingly.”[45]

Two professors from deficit schools questioned whether the school was, in fact, the proper budget unit to balance—that the divisional academic and fiscal structure of the university had deep historical roots. They argued that the new, sudden change was neither justified on economic or educational grounds nor fair. In addition, they said the budgeting system is based on such historical divisional structure rather that the *functional* structure of the university. Arguing that imposition of the rules was short-sighted, they said (along with one dean) that the budget rules set up skewed incentives for the schools to retain low-quality students.[46] The student on the committee indicated that, in fact, the budget rules had raised concern among parts of the student body regarding the university’s ability to maintain academic quality. Finally, several committee members argued that the new rules did not value important, but unquantifiable, benefits like fame and reputation brought to the institution as a whole by some of the putatively “deficit” schools. Cross-divisional payments, one professor argued, were important for the health of the whole, even though the current system may not be optimal for each division individually and the university as a whole.

It is not within the committee’s purview to resolve conflict around the budget allocation rules. As such, the rules will continue to cause tension between and within the schools of the

[44] As an example, a great deal of discussion revolved around the wording in the budget rules “encouraging” divisions to achieve budget balance and eliminate deficits (and thus the need for cross-divisional subsidies). As one committee member stated, such “encouragement” is “certainly nothing concrete that a ‘surplus’ division could utilize in a planning process.”

[45] Two additional examples of feedback from surplus schools help thicken our understanding of the key issues from their perspective. (1) “Technically, the university has shown increased enrollments and revenues and has been able to build reserves and achieve a return on investment that exceeds recent standards. What cannot be gleaned from those financial reports or their footnotes is the relative overall health of each of the divisions. This is the focal point of the new budget rules. Each division must assess their current status and formulate plans to optimize their operations through higher revenues or more effective resource allocation. The rules provide that over time subsidies from surplus divisions would be reduced and invested back into those schools.” (2) “As a surplus school, [our division] must designate 45% of its revenues towards central costs. The remaining 55% first covers the cost of financial aid and instructional costs, with the balance to be used for re-investment in the academic programs. The balance is certainly insufficient in addressing the significant problems plaguing [our division], such as the lack of full-time faculty & overall number of faculty, faculty salaries, financial aid, and capital investment.”

[46] As an example, one dean said, “every division must choose between academic integrity and standards we’re being urged to maintain on the one hand, and, on the other, a punitive system in which budgetary cuts—dollar-for-dollar for every student dismissed—are the ‘reward’ for academic vigilance.”

university. This one issue is of utmost importance and likely to remain a near-dominant aspect of finance and budget issues for years, and only continued mutual dialogue among school and university leaders can lead to outcomes that prove optimal to the schools, both individually and collectively. For this reason, the committee recommends the creation of several venues and official bodies in which such discussion and negotiation can take place. The actual shape and composition of those bodies should be determined by the interested parties although the committee would make two points: (1) the nature and composition of the group itself seemed to work well and (2) the larger governance movement taking place within the faculty of the university has proposed several councils and elected bodies that hold promise for fostering the needed interchange and transparency.

University-School Relations (including charges for university expenses or overhead). Much like Federal-State relations in the U.S., it is difficult to get a handle on precisely the nature of the fiscal relations and incentives between the university administration and schools. The university (much like the Federal government) says that it sets broad policy guidelines and gives schools (the States) a great deal of leeway in meeting them as long as certain conditions are met. Schools, much like the States, complain often bitterly about the difficulty of meeting those seemingly easy and transparent conditions. Once again, this tension is common in many institutions, but it is not the committee's charge to solve the problem. Rather, we have summarized the questions raised by various stakeholders and here suggest strategies and venues for dialogue and negotiation.

Considerable attention was given to the calculation of university overhead and other charges, an issue of some contention at nearly every university and complex institution. Schools and programs cannot exist without a registrar, bursar, security, and computing system, but such services are inherently difficult to value. Thus, school entities are likely to feel overcharged, on the one hand, and there are not the inherent market-price incentives to ensure efficient central pricing and management by university staff. It does appear that the university administration and budget officers are cost conscious, but several deans complained about escalating university costs, and cost consciousness is not the same as cost effectiveness. This issue deserves more consideration in the near future.

Table 6 shows a lower proportion of spending for instruction and research than the national average, and the endowment has apparently grown, in part, through allocation of operating revenues, which is a somewhat unusual practice. The university administration should set and publish clear guidelines for the university regarding investment in academics and administration, including benchmarks for determining the proper levels of staffing (university and school) and other educational and academic investments.

Most importantly for this committee, deans and other school administrators expressed frustration over their lack of control over and flexibility in negotiating central charges and financial aid (tuition discount rates). One professor consistently raised the concept that schools should have the ability to opt out of certain services (such as computing) if they feel they can better provide them themselves.[47] This would, of course, require the pricing of such services,

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[47] Another member remarked, "given the share of administrative spending in the total budget and the substantial burden it imposes on the divisions (see the dean's responses), it seems incredible to me that there would be any resistance at all to full

which can be difficult. We recommend that central costs be included as part of the budgeting aspect of the aforementioned governance discussions. To a large extent, the greater budget transparency already being developed at the request of the president could, if achieved, go a long way toward ameliorating some of the conflict.

Capital Planning and Budgeting. Centrally-controlled capital planning and budgeting has obviously been a success in several key areas. In fact, in raising the university's bond rating, Moody's specifically cited "reasonable capital plans with future borrowing limited to student housing" as one of the four key reasons for the upgrade. Moody's also cited the "valuable campus real estate holdings." Nevertheless, capital planning and budget issues were one of the most commonly, though not vociferously, raised issues by the deans. The deans and their officers expressed a desire to be included more in capital planning issues. At a minimum, they want to be kept well informed. They also want to be able to tailor plans to fit their local educational needs.

Capital planning is also intimately related to the new budget rules, as indicated by the following observation by a committee member: "[T]he new budget rules do not clearly specify how the university and divisions will create capital budgets. Without this issue resolved the new budget rules are much too ambiguous to be effective. They could allow more revenue to be returned to the divisions, but this revenue might simply be triangulated back to the university by forcing the divisions to create their own capital budgets. In either case, the new budget rules in their current form would not create a significant change in [our division's] operating budget from sources other than its own growth and fund-raising. Much as it is right now."

Accounting Standards and Research Grant Management. By and large, the accounting system serves the institution well on most accounts, and has improved a good deal over the past several years. All members, and School and Center respondents indicated that the transition to the Banner system had been trying, at best. All look forward to the enhanced service possibilities once all the kinks have been worked out. There was disagreement over just how temporary the problems with accounting are with respect to banner. The most universal complaint relates to grant management. Several dean's and most center directors expressed, at best, severe frustration and, at worst, outright anger at the difficulties generating reports necessary for proper grants management, grant disbursal, and in paying contractors on grants (especially foreigners).[48] Several respondents suggested a web site with guidelines, policies and procedures, as well as increased communication from accounting staff and training for school budget staff.

Inter-divisional Relations (especially for sharing students). Currently, funds do not follow students between schools, so one school gains no money for teaching a student from another. While challenging because of different school budgeting rules and practices, the university

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disclosure. In the fully transparent world the president has so eloquently argued for, all administrative costs should be clearly described and made public, and in quite a bit of detail. Administrative services and their costs ought to be tracked over time and the growth/decline should be justified on some regular basis. For example, if the central administration takes over some function (financial aid?) from the divisions, we ought to be able to see how costs changed in the divisions and in the administration. Then this should be linked to performance - how have things improved?"

[48] One research center director said that "For all practical purposes, we operate without financial information, other than what [we] keep track of on our own."

must develop a better incentive structure in this area, if it is, in fact, to behave as a university. Perhaps no single fact points to the potential for cost savings than the average class size across the university, which is 13. The university could raise this figure considerably and still retain the personal touch for which it is known. Doing so in creative and judicious ways could free up resources for improving educational quality and expanding programs in other areas. Currently, considerable duplication exists in courses taught in different schools. For instance, several departments in the Graduate Faculty as well as Milano all teach introductory graduate statistics. Sections are often relatively small and faculty talent is spread thin. Improving incentives for teaching students from different schools would improve such inefficiencies. This would not simply involve raising class sizes, but rather re-conceptualizing and pooling resource use across divisions, something that is difficult in the current budgeting environment. Budget rules should be developed that allow schools to be entrepreneurial and relatively independent in negotiating such relations.

Summary

The overall fiscal health of New School University is strong. Section 1 of this report highlighted the facts supporting this conclusion. Of course, budgets are political documents, and budgeting and finance at any university can be a tense, often combative, issue. The purpose of a self-study is, in part, to report on the university's condition, and we have done so. In addition, however, self-studies are, at best, learning experiences, and one cannot learn much of value through a perfunctory, laudatory presentation of budget data. In this spirit, the committee has explored the dimensions and tensions of the current budgeting process. We hope that the institutional knowledge gained will guide the administration to develop greater budget transparency and a budget process that is respected and supports the university's academic mission and purposes.

Recommendations

1. While the university's overall fiscal health is sound, the budget remains tuition-driven. The university should work to improve its financial base to permit more investments, especially in academic programs and student services befitting a true university with national and international stature, and increasing numbers of full-time and degree-seeking students. This should be achieved through a combination of revenue increases, strengthened endowment and improved efficiency. Fund-raising by the schools should be emphasized.
2. Improve communications about budget and finance issues between the university administration and the schools as well as among the schools themselves. This should include the formation of a budget directors group and some form of direct, high-level consultation with the faculty. Foster and continuously create opportunities for the kind of dialogue that has taken place in the subcommittee.
3. Develop and implement the new budget rules to better ensure and support academic excellence, and teaching and research excellence in each of the schools and across the university. This would include making explicit how school revenues can be enhanced through achievements such as enrollment growth.

4. Develop a budgetary framework to promote interdivisional enrollment and to maximize the added value of the emerging university to it schools. Developing a financial framework that deals with the “balance of trade” across divisions, beyond what is suggested in the budget rules, will prove key. This should involve creating an institutional mechanism for representatives from each division to participate in setting university priorities for investment in facilities and staffing in order to best pool resources. Careful examination of the divisional structure of the university could lead to changes in the relationships (financial and academic) between the schools.
5. Develop and publish benchmark financial ratios (and goals for those ratios) aimed at measuring the university’s investment in academic instruction, research, student services and administration.
6. Consider a two-year budget cycle for parts of the budget (e.g., faculty hiring).
7. Increase involvement by the schools in the determination of university expenses and increase transparency regarding the calculation and justification for central charges for services. Likewise, cost analysis should be strengthened for all administrative costs at all levels of the university to avoid duplication and promote efficiency.
8. Encourage schools to review internal activities to make budget processes more transparent at the divisional level, including consultation with faculty and students.
9. Improve financial and accounting reports to schools and especially, to research centers and project directors. Improve the capacity and support for grants, research and funded projects.
10. Improve capital planning, primarily through increased involvement of the schools.
11. Capital and academic planning should be linked by a process that ties all the schools together.