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Revenue Centered Budgeting at USC: the Implications for Communication Studies

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WHEN James H. Zumberge assumed the Presidency of the University of Southern California in 1980, he announced his intention to dramatically reshape the University's budget process. The system in place when Zumberge arrived at USC was similar to that used at almost all colleges and universities, it emphasized central control. Under this traditional budget system, the responsibility for generating and allocating funds rested primarily with the Provost. Deans and heads of units petitioned the Provost for their operating budgets and the Provost doled out the money as he saw fit. Only senior level administrators worried about generating income or containing costs. Deans and program heads thought only about their own expense budgets, they were given the funds that they needed, and they understood that if they failed to spend all of their allocation they would likely have their budgets reduced the following year.

Zumberge replaced the existing budgeting system with a revolutionary plan to create "revenue centered" financial management at USC. Zumberge sought to bring the practices of business financing to the university. Under this approach, individual academic and administrative units were given far greater autonomy over their own budgets, and they were forced to concern themselves with the generation of income, and not just with their expenditures. The goal was to reward units that demonstrated initiative and discovered entrepreneurial ways to enhance their revenue streams either through enrollment gains, increased funding from grants, and/or linkages with other academic units that could either increase income or dramatically reduce costs.

The USC revenue centered budgeting strategy attracted widespread attention, and almost from its inception it was copied by other colleges and universities. While it is useful for deans or department chairs of communication at institutions that are emulating USC's budgeting approach to consider what has developed on our campus, I must emphasize that the particular adaptations of revenue centered budgeting that may occur on any given campus make comparisons very difficult. A decade after its inception on our campus, the results suggest that revenue centered budgeting has achieved mixed results. The autonomy has greatly benefited some academic units, penalized others, and in many cases seems to have hampered rather than fostered the creative linkages between units promised. Before proceeding further I will describe the system as it functions at USC.

THE USC PLAN

At USC individual revenue centers were created to facilitate financial planning and budgeting. The revenue centers were classified as either academic or auxiliary. The academic revenue centers consist of the colleges, schools and institutes of the university, such as the College of Letters Arts and Sciences, the Law School, the School of Business, the School of Dentistry, the School of Medicine, the School of Education, etc. The auxiliary revenue centers include athletics, the residence halls, bookstores, parking, food services, etc.

In addition, administrative service centers were created. These centers typically have little or no direct income, but they provide support without which the revenue producing units could not operate. These centers include: admissions and financial aid, business affairs, financial services, legal services, the libraries, the registrar, the computing center, public relations, etc.

The revenue centers receive the bulk of the funds generated in their units. For academic units this means the tuition payments, income from grants, gifts from alumni, etc. For auxiliary revenue centers it includes the income from their activities. Athletics keeps ticket revenues and income from broadcasts of games; parking keeps parking fees; housing keeps the rents, etc.

No revenue centers are permitted to keep everything that they earn, for all revenue centers are "taxed" for their participation in the University. These taxes include both direct and indirect costs.

Direct costs include salaries and fringe benefits for the faculty and/or staff within that revenue center. Because these costs are charged directly to the revenue centers, deans and directors are given strong incentives to economize. Consequently, deans are rewarded for keeping their payrolls in check both by limiting the growth of their faculty and by holding salaries down. Before approving a new faculty line a dean will want some assurance that there is a demand for the courses that the new faculty member will teach, and/or that a faculty member hired in this area would likely be able to pull in significant grant money. Deans also seek to deliver their "product" in a cost effective way, and to maximize the use of their human resources. Revenue centers are not rewarded for using part-time or adjunct faculty to provide instruction, however, because each revenue center must pay the fringe benefit tax (currently 31% of salaries) for all adjuncts, even though most of them do not receive the benefits themselves. The money from this fund is used to cover the expenses generated when faculty members take sabbatical leaves.

Revenue centers are strongly encouraged to enhance their revenue streams through grants, because they get to keep not only a substantial part of the income from the grant, but also a cut from the overhead. Deans are thus encouraged to maximize the amount of time that faculty members have to devote to their research, especially their funded research. This tends to discourage cost cutting moves that might increase faculty teaching loads or student contact hours, especially for faculty members who are productive researchers.

Another substantial direct cost is the "tax" that each revenue center must contribute for student financial aid. Currently, 26.8% of tuition income is lost off the top as a contribution to the financial aid pool at the University. This percentage has fluctuated from year to year, but has always increased. Cuts in state and federal financial aid programs and the impact of the recession in California have, however, dramatically increased the cost of financial aid at the University during the past two years.

Each revenue center is also charged for its own specific physical plant needs. Every building on campus has been analyzed and every inch of space is categorized. It can be listed as classroom, office space, storage space, laboratory space, auditorium, service space, restrooms, lounges, unusable space, etc. Then the central budget officer assesses the costs to the University of maintaining each type of space. Thus, for example, a laboratory is far more costly to maintain than a storage room, a classroom requires less expense than a lounge, etc. Each building is then profiled by percentage of space and an average cost per square foot figure is provided. In our building, a mixed use classroom and office building, this figures out to be $8.75 per square foot per year. This fee pays for maintenance, security, utilities, etc. Our revenue center is not charged for the construction of our building because it was donated space. Some buildings on campus, however, were built with bonds, and in these cases the revenue center is also charged for the interest on the construction bonds.

Indirect expenses are also deducted from the tuition revenues. The expenses of the administrative service centers comprise what are commonly termed the indirect costs of the University. The costs of the administrative service centers are reclassified into cost pools and then associated with the individual revenue centers to reflect the full cost of the revenue-generating units of the University.

The entrepreneurial spirit that motivates deans to find ways to increase their enrollments, fill their courses, attract more grants, etc., also exists in the auxiliary revenue centers. All revenue centers are rewarded if they can increase their revenue streams. For example, parking operations must pay for the direct cost of its lots, ramps, personnel, etc., but they can also determine the price for the use of their facilities. As a result, the cost of parking seems quite high at USC (I pay $65 a month) when compared to other universities, although the parking office always reminds the faculty that this is low for prices in or near downtown LA. The parking operation also creates income by charging football fans for Raiders games $10 to park on campus. Likewise, food service prices seem high on campus because these revenue centers seek to make a profit, but on the other hand, quality is relatively high because dinning services genuinely have to compete with off campus dining facilities, or they will be forced to close down their operations. In fact, celebrity chef Wolfgang Puck is opening a pizza restaurant in our student commons this spring.

There are revenue centers that cannot function on the amount of income that they actually generate in a given year. If the shortfall between income and expenses is considered unusual, then that revenue center can borrow funds from the "central bank." The "bank" contains the funds from the shared participation pool, so other revenue centers have a strong interest in being tight with the money from this pool. The more demands on the money from this central bank, the higher the participation taxes the more profitable revenue centers must pay. Normally, a unit can borrow for only three years before they would be forced to pay back this money. An academic unit that continues to face revenue shortfalls after three years, and that cannot generate income either through tuition or research or training grants, will receive close scrutiny. If this revenue center is deemed absolutely essential to the University, and especially if it is seen to have national or international prominence, the subventions may continue indefinitely. If it is not deemed essential, however, or its quality is dubious, it may have its budgets severely trimmed, it might be downsized and made part of a larger revenue center, or it might be completely eliminated. The School of Library Science at USC was eliminated, and the School of Nursing has been reviewed in the past three years for potential elimination. One of the greatest problems with the revenue centered budgeting approach at USC has been the unwillingness of the revenue centers to pay the amount of tax required to sustain the health and vitality of some of the non-profitable revenue centers or administrative service units. The plight of the libraries provides the clearest illustration. Libraries are, of course, profoundly expensive. The costs of subscriptions to periodicals alone have skyrocketed as professional associations have sought to pass their costs on to their non-voting institutional members. The result has been continuing pressures to keep these costs in check. At USC, we have been forced to trim our subscriptions and acquisitions of new books, as well as reduce operating hours to keep costs under control. USC's libraries have never been as strong as one would desire (or even expect) at a major research university, and this situation has certainly worsened since the introduction of revenue center budgeting. The libraries have also been motivated to find ways to increase their income. For example, they charge exorbitantly high prices for photocopying, because they have no competition, and they can.

EVERY CAMPUS IS UNIQUE

I believe that communication departments will either profit from revenue centered budgeting, or suffer due to revenue centered budgeting, only as a result of the unique situation on their own campus. Conventional wisdom says that departments that have relatively low costs of instruction (that do not need expensive laboratories, computing costs, etc.), but that attract large numbers of students, should benefit from revenue centered budgeting. Most communication departments should meet these requirements, although certainly departments that must maintain expensive radio or television studios, might find their operating costs to be extremely high.

The fact that you produce substantial tuition income but have relatively low cost instruction does not, however, mean that revenue centered budgeting will necessarily mean a great windfall for your department.

My own department at USC, the Department of Communication Arts and Sciences, has the second highest number of undergraduate majors in the our college, approximately 700. Last semester we had over 10,000 student credit hours generated in the department. We are a cash cow. Unfortunately for us, however, we are not our own revenue center. In fact, our dean, the Dean of Social Sciences and Communication, who oversees 12 academic departments is not in charge of her own revenue center. Instead, this division, along with the Division of Humanities and the Division of Natural Sciences is part of the College of Letters Arts and Sciences.

The College of Letters Arts and Sciences is the largest revenue center on campus. It contains 28 academic departments and almost 500 faculty members. As a result, most of the income that our department generates goes to support the costs of instruction and research in other departments in the College, and especially in the very expensive Division of Natural Sciences. Only the Department of Biology in the Division of Natural Sciences earns significant amounts of tuition income for the College. All of the other Natural Sciences departments feed at a trough that is kept replenished by the tuition dollars paid by students from Communication Arts and Sciences and from the other departments in the Social Sciences and Humanities. My department, Communication Arts and Sciences, has eleven full-time faculty, 22 teaching assistants, and four part-time lecturers, and operates on a yearly budget of less than $1.4 million. Yet as I already mentioned, we are the second largest major in the College. Our revenue center, the College of Letters Arts and Sciences, has almost 500 faculty members and a total budget of more than $115 million.

I do want to emphasize that I am not simply "crying the blues" here. Our department is one of the few in our college that is currently searching for faculty (two positions have been created for us), and we are certainly in a growth mode. Our current deans acknowledge the fact that our department has been economically disadvantaged for many years, and have expressed a willingness to help us to grow. If our department were its own revenue center, however, based on current cost recovery statistics, our income would be almost $8 million each year instead of the $1.4 million we now receive. Thus it is not so much the concept of revenue centered budgeting that can help or hurt communication departments, it is the placement of a particular department, college, or school in a revenue center and the financial health of that revenue center that makes a difference. Also, under revenue centered budgeting, as in any other form of budgeting, the quality of the department, the strength of the faculty and its chairperson, and the support of the dean determines who prospers.

THE FUTURE AT USC

It is an especially interesting time to be discussing revenue centered budgeting at USC, because dramatic changes seem to be underway as a part of our new strategic planning process. Communications has been designated as one of five areas of excellence on campus (the others include: the Arts, Science and Technology, Health Sciences and Care, and Management and Public Policy). Some have proposed restructuring the University, breaking the College of Letters Arts and Sciences into smaller colleges, and perhaps even creating a College of Communications. Such a restructuring might lead to the creation of a new revenue center that could significantly change the intellectual as well as financial opportunities on campus.

I am convinced that USC will continue to have a strong and dynamic program in Communication Arts and Sciences not because of or in spite of revenue centered budgeting, but because we have a strong tradition, an active and often published faculty, excellent students at both the undergraduate and the graduate levels, and highly committed and generous alumni.

NOTES

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