Rethinking Revenue

By Stephen G. Pelletier

As state appropriations continue to erode, public universities are re-envisioning their revenue streams.

One university bought a conference resort. Another is building biomass facilities that generate energy. Yet another might expand its renowned food service operation to also serve other institutions.

Three different institutions, three quite different activities. Look beyond the differences, though, and several common themes emerge. Each activity can generate revenue. Each is fundamentally entrepreneurial. And none is predicated on state funding.

In the greater landscape of public colleges and universities, these three activities may be exceptions that prove a rule. Certainly not every AASCU institution could or should buy a hotel, build a biodigester or franchise its food service. Still, these three examples underscore an emerging principle of the "new normal," which is that today, every public college and university needs to think anew—and broadly, creatively and entrepreneurially—about how to generate income.

The backstory here is painfully familiar. State appropriations for public universities have withered. There's a growing sense they may never return to levels of even a few years ago, let alone grow to meet expanding costs for higher education. So to balance its budget, what's a university to do? Increases in tuition and fees can compensate only so far. Cost cutting can certainly help, too, but many institutions have already done a lot of that over the past few years.

Accordingly, many public universities are responding to this arid fiscal environment by looking to diversify their revenue streams.

Drive to Find More Money

Now president of the College of the Bahamas, Betsy V. Boze previously served as senior fellow at AASCU, where one of her projects was to investigate revenue streams at public universities.

Boze found that in their drive to find more money, many institutions have been working somewhat predictable territory, such as trying to fill dorm rooms in the summer through camps and conventions or looking to units like continuing education to generate more profit. She also found more action in areas like selling advertising in campus venues, marketing logo wear, approving affinity credit cards and license plates, and sponsoring travel programs. And most institutions have beefed up their fundraising.

As the recession has continued its hold, however, and state funding has continued to erode, the need to find new ways to generate revenue has become even more critical. That has led public universities to invest more time and energy in developing and expanding their revenue streams. The focus of such activities has shifted from the periphery—and things like affinity license plates—to live instead at the heart of the institution's budgeting process. Institutions are becoming more strategic in expanding revenue streams. Many have become decidedly more entrepreneurial. And many are asking questions and delving into enterprises that may be quite unfamiliar and new.

Fiscal management of revenue streams is becoming more refined. One example is the setting of student fees. What might have once been an arbitrary and cursory exercise has evolved to one in which increases in fees are determined through careful analysis of a service's actual costs.

Cost shifting is also part of the calculus. For example, research centers that once may have been propped up by institutional dollars are now expected to balance their own budgets—if not return a profit to the institution.

Cost cutting, a reality at public universities' for several years now, is also becoming more sophisticated. Deeper analyses of the true costs of instruction, for example, have prompted many institutions to rethink and fine-tune the way they allocate classroom and research space. Most institutions are either considering or are already deeply engaged in efforts to reduce instructional costs through courses that mix classroom and online learning. And of course many are expanding their offerings of purely online courses.

As just one example, Ramapo College of New Jersey draws today from a quiver of revenue strategies that are fast becoming standard operating responses to the "new normal" at public universities. To expand income, Ramapo implemented a degree completion program for adult learners, started an MBA program, increased its online courses, and expanded its continuing education programs. It has also embraced zero-based budgeting, rebid or renegotiated contracts, and refinanced some bond debt.

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The bottom line is that a cultural shift is under way. The erosion of tradition support from public coffers has open the door for public universities to broaden their thinking and become more resourceful—and aggressive—about securing revenue. Institutions that not long ago may have pursued a one-off tactic simply to generate more income have become more thoughtful, comprehensive and strategic in their thinking about revenue streams. Increasingly too, university presidents and their colleagues are measuring the ultimate value of efforts to gain more income not just in what they return to the bottom line, but in how well they fit with and advance the university mission and strategic plan.

Aligning With the Mission

While it's fairly common for a university to own an interest in a hotel or conference center, Richard Stockton College of New Jersey took that concept up a notch when it purchased a $20 million golf resort near campus in 2010. Some of the facility's anticipated profit will go directly into the college's budget as a new revenue stream. But according to the college's president, Herman J. Saatkamp, Jr., the benefits don't stop there. Saatkamp emphasizes that the resort provides a living/learning laboratory for students in the school's hospitality management program. It also provides much-needed new housing for students—180 will live there next year—and extra space for academics and administration. And the institution benefits from increased visibility among the resort's tens of thousands of guests.

A similar dynamic is in evidence in Wisconsin, where the University of Wisconsin-Oshkosh recently partnered with two private-sector hoteliers to purchase the City Center Hotel and agreed to market the Oshkosh Convention Center adjacent to the hotel. University Chancellor Richard H. Wells says the project has several interrelated benefits. It serves the community, provides practical experiences for students, and will reap net revenue that can be plowed back into the educational mission—money that will support academic programs as well as university scholarships for Oshkosh-area high school graduates.

Pursuing another revenue stream with similarly broad benefits, UW-Oshkosh put an anaerobic dry fermentation biodigester, first of its kind in the western hemisphere, on campus. Generating energy from plant and food waste, it enhances the university's revenue stream in three ways: producing energy that can be sold back to the grid, creating marketable carbon credits, and leaving waste products for which there is also a market.

UW-Oshkosh also relies on more traditional ways of diversifying revenue. Several years ago, for example, it launched an online accelerated degree program in nursing. Net revenue from the highly successful program supports the university's classroom-based nursing program as well as the institution's general budget.

As universities become more practiced in generating revenue, they are also becoming more sophisticated about how they manage revenue streams. Richard Stockton College, for example, was unique on the East Coast in creating Stockton Affiliated Services, Inc. (SASI), a non-profit auxiliary organization akin to ones that are common in California. SASI handles the school's housing rentals, transportation and safety services, dining services and the campus bookstore. "Forming SASI has enabled the college to increase its revenue stream by virtue of reducing costs," Saatkamp says. "It permits us to do long-term contracts and function in a more efficient and effective way."

The University of West Florida created a "business direct support organization" (DSO) that is tasked with "entering into public/private partnerships that will bring in new sources of revenue," according to President Judy Bense. The DSO is one tool to help the school "keep [our] margin of excellence during tough economic times," she says.

"We've talked about creating new sources of revenue for years but really only focused on enrollment growth and new research dollars," Bense says. "Now we are looking at entrepreneurial activities like never before in our history." Among other work, the DSO has been renegotiating vendor

Strategies for Revenue Streams

Public universities that are successful in expanding their options for income take many paths. Here are a few additional examples of how schools are nurturing revenue streams.

- Castleton State College in Vermont and Richard Stockton College in New Jersey are among the institutions that hope to make money—and raise their visibility—by creating units that conduct local, state and national polling.
- Richard Stockton and Pennsylvania's West Chester University are both pioneers in using geothermal heating and cooling systems.
- Castleton State bought and renovated a regional fieldhouse, which now serves college athletics and other institutional needs and generates revenue for the university through space rentals and a popular fitness center.
- Richard Stockton generated more revenue by converting an administrative building into one for academics.
- The University of Wisconsin-Oshkosh rents space on some of its buildings for cell towers.
- In Pennsylvania this past May, legislators were debating a bill that would return royalties from natural gas drilling under a campus to that campus and the state's college system rather than to the state itself.
- Richard Stockton College has expanded its articulation agreements with other universities and offers advanced placement courses through partnerships with local high schools.
- Western Michigan University is raising more money from tuition through differential tuition models in its fine arts and business colleges.
- Among state systems that are helping their institutions cut costs and aid revenue streams, the University System of Maryland has adopted new academic policies to help reduce student time-to-degree, in effect expanding capacity for education at institutions in the system, and is avidly pursuing course redesign that has demonstrated significant reductions in course costs-per-student. A major cost efficiency initiative by the system has found cumulative savings of more than $255 million and helped keep tuition increases relatively modest.
- Ohio State University has announced plans to lease its parking operations in a 50-year deal that will return some $483 million to the school.

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contracts and assessing the leasing of university land for private investments.

Public/private partnerships are also helping New Jersey colleges. Under a program approved by the state, for example, Ramapo College—which like many institutions is strapped for funding for capital projects—was able to partner with a third-party provider that is paying for a new roof on a main campus building. In exchange, the vendor secured rights to install photovoltaic panels that will produce electricity that will be sold back to the college at market rates.

In its approach to expanding and diversifying its revenue streams, Ramapo intentionally focuses on its strengths, says president Peter P. Mercer. At the same time, he says, "before we start a new program, we have to be assured that it can sustain itself." Where revenue expansion becomes potentially worrisome, Mercer suggests, is when institutions simply chase programs opportunistically, solely because they might be moneymakers. Too much of that strategy, he cautions, and colleges risk seeing the college mission become "either sacrificed or so nebulous that it can't be pinned down. And it runs the risk of colleges becoming too fragmented in their offerings."

Among many other strategies to enhance revenue, San Diego State University has worked to shift costs that had been funded under state appropriations to auxiliary operations. For example, some research compliance activities were shifted to the school's research foundation and some support costs for international programs were moved under the umbrella of the school's revenue-generating College of Extended Studies, home to lifelong learning, certificate programs, career advancement courses and the like. "By shifting costs to auxiliary operations, we're basically taking them off of the state budget and now asking these other units to essentially take responsibility for funding us," says SDSU's provost, Nancy A. Marlin. The university may also sell some real estate.

Among institutions looking to boost the revenue stream from tuition, SDSU is one of many working to recruit more out-of-state and international students. That changes the focus for the admissions operation at the school, which has routinely seen 70,000 undergraduate applications a year and historically has had to do little direct recruitment. But tough times call for tough measures and, like many schools, SDSU is actively seeking more students who will pay full tuition.

Trying to Figure it Out

Marlin believes that the need to broaden revenue streams requires new thinking on the part of public higher education. When state coffers were more flush, she says, "we didn't spend our time thinking about how we could make money." But today's fiscal reality calls for a different response. "We no longer view going to lobby the legislature as the way that we're going to increase our revenue," Marlin says. "So we are trying to look at many other aspects. We're in the process of trying to figure it out. We're saying that we can do this, and that we need to do this to protect the mission of the institution and our academic programs."

Wells says that in its strategic planning, UW-Oshkosh begins with "the realistic prognoses that state and federal investments are not going to build back in any significant way," at least not in the immediate future, and that the university has "pretty much peaked out in terms of revenue from tuition and fees." Those circumstances argue, Wells suggests, that the institution's strategic financial planning needs to encompass "more creative, innovative and entrepreneurial strategies as our way of diversifying revenue streams."

Saatkamp also believes there's a "new normal" when it comes to revenue generation. "Because of the significant reduction in state funding, I think one has to really begin to think about how to sustain a college or university, and to do that well," he says. "I think we have to be a little more entrepreneurial and a little more adventuresome than we have been in the past. And at the same time, we have to be practical and pragmatic to make sure that were not getting out on a limb in a way that would harm the institution. And it really has to tie to the central mission. P

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