

UNDERSTANDING HIGHER EDUCATION FINANCE

INTERVIEW WITH MATT FAJACK
VICE CHANCELLOR FOR FINANCE AND ADMINISTRATION,
UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

As part of a project on higher education finance supported by the Bill and Melinda Gates Foundation, Nate Johnson interviewed a number of experts and leaders to gather different perspectives on how major budget choices are made. The interviews have been condensed for publication so that the key insights are available to anyone who is interested.

This interview with Matt Fajack, who worked primarily in the business sector before entering higher education, highlights Responsibility Center Management, appropriations and tuition, differential tuition, and research funding.

One of the things that you did at Kent State that I think that you did probably in a somewhat different way at the University of Florida—I don't know if you've been doing it at Chapel Hill—is change the internal budget allocation system so that units within the institution generated their own revenue in a more entrepreneurial way, Responsibility Center Management, and were accountable for the kinds of activities and outputs that would generate the revenue that's coming into the institution. Is that a fair way of characterizing it?

All three of the universities, when I got there, were incremental base. You received what you received last year plus or minus whatever state cuts or added money were enacted. At UNC, we're looking at new budget models. We haven't made any decision yet, but we want to go to a more incentive-based budgeting model where the deans have more responsibility and authority, more accountability for how they spend their money, and they get to take some risk and with potential rewards.

If you could generate \$20,000 or \$25,000 a year per student for the institution, but you had to either do it with all appropriations or all tuition, which one would you choose?

Being a public school supporter myself, I would go with all appropriations, no tuition. I think the more money you get in appropriations, you tend to put it into quality, not into growing programs and adding new programs, and if you do add new programs, they're very specialized. Increased appropriations goes to improving quality, not growing the school.

It seems like the downside of that from the student point of view would be those who could afford it may not be as careful about consuming the resources they don't perceive as costing them anything.

I think you are right to an extent. Florida's a great example of the downside a student can come in with 60 hours of dual enrollment when you're in high school, and you graduate with 120 hours. Most of the students that came in with 60 hours still took 120 more hours at Florida. It's because those first 60 hours were free to them, at least perceived to be free to the student. Then between the low tuition at Florida and the Bright Future Scholarship, it was costing them hardly anything to take an extra 60 hours at the University of Florida.

Do you have any kind of differential tuition at North Carolina, either different majors or junior/senior?

Yes, in some of our graduate and professional programs, we have what we call “school-based tuition.” The university has to make a request of the board of governors and tell them exactly what it's for. For example, the university needs to hire two more professors, or they need this kind of equipment. So it's not market driven at all, it's more needs based. School based tuition only exists at the graduate and professional programs. There is no school based tuition or differential tuition at the undergraduate level.

in Florida, there is a true belief in pedagogy, not in dollars. They were finding the students that came in with a lot of dual enrollment hours failed more often when they jumped right into, say, calculus when they tested out of trigonometry. They just didn't do as well, and they graduated with really less of those other skills: tolerance, civic engagement, all those other things. When I was a part of that conversation, we really never talked about financials in that whole conversation. It really was pedagogy and outcome based.

Do you think giving the units within a large university some ability to make a case for differential tuition, that part of the Responsibility Center Management, make sense?

I could argue both sides of that. You have an engineering program that just costs more to deliver than a humanities program, so in effect a humanities major is subsidizing an engineering major if you do not have differential tuition. In that respect, yes, you should be able to charge more for engineering. But most of the differential tuition programs around the country are really not based on cost but are based on the market. If you're a public university, I think it is difficult to charge more for business just because you can get people to pay more. Unless you have really, really good financial aid, you're going to lose important educational needs such as social and economic diversity.

Within the incentive structure of a research university, do you think that there's a gravitational pull toward the research money because of its scale or its prestige? Or do you think that there's a balance in terms of the incentives for where the institution's going to focus its mission, in spite of the temptation of just going after more and more research?

I don't know if faculty know it or not, but research requires a considerable investment beyond the direct cost reimbursement and the related facilities and administrative cost return, even if the university is receiving the full F&A rate. You're still investing money, because of various reasons. For example, to get a new faculty member up to being ready to get a major grant, you're giving the faculty member a lot of release time to do unfunded research. Sixty percent of our research is medically related, and half of those principal investigators are paid more than the federal salary cap, so we're investing the amount of over the cap salary. Another example of required investment is the limit on the administrative piece of F&A, and our administrative costs are higher than the limit, so you're really investing unfunded cost into research.

There's not a financial reason, although I think there are some deans, and especially some chairs that, because we give them a share of indirect costs, they think they're financially ahead. Historically in this state, the state has provided considerable state support for research. That was one of their stated goals, but as our legislature has examined its priorities, that is not the case anymore. The legislature is focused on students, access, and affordability, and they don't want to see as much state money going into research.

Are there conversations that happen within an institution about, "We can't afford to do more federal research because we have to subsidize it?"

Yes. The chancellor here—we're in the middle of developing a strategic plan—would love to include, "We need to double research." Because a university's prestige is based on its research. We hire faculty, and the way to make it to tenure is through research. We hire people that like to do research, and so it's self-perpetuating. But yes, the financial realities do hold us back a lot.

Is it different at a Georgia State, or a UCF, or if you think that they're having to subsidize their research enterprises out of tuition or state appropriation somehow?

I don't want to speak for Georgia State or UCF, but I believe many administrators believe that incrementally, if we did a more research, it would not require subsidization. We're not going to add more payroll clerks. We're not going to add more people in research accounting. So incrementally, you can make a little money off of it, but it's a step function. It's not a linear curve. At some point, you do have to add more administrative people, or you have to build a new building, or you have to build new labs. So that step keeps going, and when you make that step, then you're losing money again.

How much are you going to subsidize the junior faculty to do unfunded research? If you said that we're going to have only a two-course load each semester no matter what, so we want them doing unfunded research during that period, then if we can get them to the point where they're getting funded research, that saves us money, which works fine if you're stable and you're just circulating faculty. There's somebody retiring that used to be fully funded, so now you've got to move a junior person into a fully funded role. That kind of works, but if you're trying to really grow, you're either having to hire, and you're paying a lot of money, and you're paying for start-up labs, and all that stuff; or you've got to internally grow, which means giving your junior faculty more time off to do non-state work.

Would it be better to diverge the functions of the institution and have standalone research institutes hive off the hospital and the labs, and have them be standalone institutes, and have the teaching function be separate? Or is there some synergy there, especially on the financial side, or the academic side?

At the university level, financially, you'd be better off if they were two separate organizations and a university could focus exclusively teaching. That be said, would your professors be as effective if they didn't do research? We say "no," they're better teachers because they're in the middle of research. At the national level we would not be better off diverging the functions. We have graduate students who are cheap labor while at the same time learning to be the next generation of great researchers. Such a combination of research production and learning is very effective.

Matt Fajack previously served as the Vice President and Chief Financial Officer for the University of Florida and the Executive Director of Financial Affairs at Kent State University.