

FUNDING SOURCES FOR RESEARCH UNIVERSITIES
(Addendum to Finances of Research Universities – June 2014)

JULY 2020

BACKGROUND: These are unprecedented times. Institutions are being confronted with difficult decisions caused by the COVID-19 pandemic and the subsequent economic downturn. Amid drastic reductions in funding from traditional sources such as state appropriations, tuition, and clinical revenue, institutions are implementing cost-cutting measures that include hiring and salary freezes, retirement incentives, furloughs and lay-offs, amongst others. All institutions are impacted—public and private, institutions with medical schools and those without, land-grants and urban institutions—and none are immune from the economic impacts of COVID-19.

In June 2014, COGR published [Finances of Research Universities](#). This paper described the financial landscape of research universities, documented challenges, and emphasized the importance of a healthy federal government–university partnership. This Addendum to the 2014 paper describes the funding sources that institutions may have available, including restrictions that may apply. Note, all sources listed are not available to every institution.

Consistent across all institutions is the challenge of managing these funding sources amid the economic fall-out from COVID-19. As funding has been put at-risk, institutions have faced significant and unexpected costs relating first to the ramp-down of campus activities, most recently related to reopening, and a threat of another ramp-down if there is a new spike. Among the significant costs absorbed by institutions are salary costs to retain faculty and staff, including those who were not able to be fully productive in a remote capacity. Additional costs have included IT and other infrastructure costs necessary to move work off-campus; purchase of necessary personal protective equipment and cleaning/disinfecting supplies; costs associated with reopening physical plant; and the purchase and implementation of systems and equipment to ensure appropriate preventative measures such as social distancing and testing programs. Consequently, many institutions have exhausted or significantly diminished readily available sources of funding.

THE CHALLENGE: As funding sources have been exhausted or significantly diminished, institutional survival requires implementation of the difficult cost-cutting measures in conjunction with maximizing the significantly diminished funding sources. This is an existential crisis, which requires university leadership to prioritize the allocation of scarce funds and resources across multiple institutional functions.

As this Addendum focuses on “Funding Sources,” all stakeholders who have a vested interest in continuity of the research enterprise should be particularly engaged in the availability of university funding sources, and in turn, the availability of these funding sources during the COVID-19 pandemic and the subsequent economic downturn. First, two important definitions:

UNRESTRICTED funding sources can be used *at the discretion of the institution* for the primary missions of teaching, research, public service, or any other activity.

RESTRICTED funding sources are those that are *limited in use by third parties*, such as donors and research sponsors.

Next, the remainder of this Addendum provides descriptions of funding sources, and their current status.

FUNDING SOURCES:

***State Appropriations* – UNRESTRICTED.** Provides funding for the general operations of the institution; normally with expectations to support specific functions.

STATUS: At-risk as State tax revenues have slowed.

***Net Tuition and Fees* – UNRESTRICTED.** Funds resulting from charges to students. Published tuition rates normally are discounted to a significant extent on a needs-based formula. Only net charges are realized by an institution.

STATUS: At-risk as universities face challenges in attracting/retaining students and charging full tuition for remote learning; also, in many cases, state/institutional policy limits tuition increases. Further, the economic downturn will increase the need for additional financial aid. Finally, foreign students, whose tuition is often the least discounted, may be unable to attend in the coming year.

***Federal Grants & Contracts* – RESTRICTED.** Federal awards to fund research and other sponsored activities.

STATUS: Funding partly stabilized due in significant part to OMB salary flexibilities applicable to grants. However, flexibilities on contracts were only provided on a case-by-case basis. This relief has provided a crucial and necessary lifeline specific to federal grants. As research ramps back up, the need to utilize these flexibilities should reduce, provided that there is no resurgence of the virus that causes governmental authorities to reimpose work restrictions.

Industry, Foundation, State and Local Grants & Contracts – RESTRICTED. Other sponsors that fund research and other sponsored activities.

STATUS: At-risk. Similar OMB salary flexibilities may be available on a case-by-case basis. Some funders, especially state and corporate funders who are struggling financially, may have cash flow issues that could affect payments. Additionally, the pandemic has negatively impacted the recruitment of research participants for clinical trials.

Reimbursement of F&A on all Grants & Contracts – UNRESTRICTED. F&A reimbursement follows grants and contracts.

STATUS: Funding partly stabilized due to OMB salary flexibilities applicable to grants. However, may not applicable to other federal contracts and other sponsors.

Restricted Endowment Income – RESTRICTED. A significant portion of endowment funds, and the corresponding income that may be generated, are restricted to specific activities. Endowment funding includes legal restrictions, which can restrict spending to a portion of the income generated by the amounts invested; the principle remains intact to generate a future funding stream.

STATUS: At-risk. Volatility in the capital markets has put these funds at risk as decreases in the market values reduce the underlying value and investment income available for distribution.

Unrestricted Endowment Income – UNRESTRICTED. A small portion of the endowment is the unrestricted portion of income generated by the institution's investments and is used to fund institutional activities and student financial aid according to institutional policies.

STATUS: At-risk. Volatility in the capital markets has put these funds at risk as decreases in the market values reduce the underlying value and investment income available for distribution.

Gifts – RESTRICTED & UNRESTRICTED. Gifts often are restricted for a specific purpose. Even when gifts are unrestricted, they may contain certain donor expectations (e.g., to be used to fund student scholarships), and consequently must be used within the designated context. When available as purely unrestricted, these gifts can be used to serve the immediate needs of the institution.

STATUS: At-risk. These funds represent a limited source of funding and the expectation is that the sources of these gifts will be impacted by the COVID-19 financial crisis and that they will decrease.

Unrestricted Reserves and Discretionary Funds – UNRESTRICTED. A small amount of unrestricted reserves and discretionary funds normally are available. When available, these are used to serve the immediate needs of the institution.

STATUS: At-risk. These funds have already been utilized to pay non-productive workers over the past months and at many institutions already have been exhausted.

Auxiliary Enterprises – RESTRICTED. Self-supporting activities that provide services to the university community (including students, faculty, and staff) and to the public. Examples include university housing, intercollegiate athletics, bookstores, and dining.

STATUS: At-risk. Many of these activities have been significantly curtailed or fully closed.

Clinical Revenue – UNRESTRICTED. Income generated from university affiliated hospitals, clinics, and other health-care facilities.

STATUS: At-risk. Many income generating activities, including elective surgeries and non-emergency services have been stopped or curtailed causing massive losses of clinical revenue.

Federal and State Emergency Legislation and Insurance Programs – RESTRICTED & UNRESTRICTED. Emergency legislation at both the federal and state levels have provided some additional financial support. Concurrently, some institutions are determining what relief may be available under FEMA and other insurance programs.

STATUS: Potential to provide stability, though eligibility for these programs still is to be determined. In almost all cases, the programs available to date provide only a small fraction of the lost funding and unplanned expenditures as a result of the pandemic. In addition, most programs to-date have not been targeted to research, and as such, the additional funding must be allocated to the prescribed activities.

IN CONCLUSION: There are no easy answers. Research universities are in survival mode and all available funding sources are being used to support a wide-range of institutional functions, including the research enterprise. And in all likelihood, the financial uncertainty will continue into the near-term, and beyond. Through papers, such as this Addendum, research universities will continue to be transparent on the finances of research universities—and as institutions make the difficult decisions to ensure survival, comprehensive and detailed documentation and record-keeping will be developed and maintained to support institutional policies and practices.