Original Article

Private giving and state funding of Maryland's public institutions: New perspectives on support of historically black institutions

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ABSTRACT **College leaders and policymakers benefit by understanding the relationship between increases in private giving, changes in state appropriations and how to position the institution to maximize both sources of revenue. Anecdotal and attitudinal studies suggested that fundraising success may affect state funding of higher education institutions. Recent quantitative research examining all Maryland 4-year public institutions indicated that total private giving was a partial predictor of state funding per full-time equivalent student, although there was no multiplier effect on private giving leveraging increased state operating funding. This research demonstrated a new method to examine the private and state support of Historically Black Institutions (HBIs) and Traditionally White Institutions (TWIs) and the supplanting of state funding, which is the focus of this article. My analysis of data from Maryland's four HBIs compared to TWIs was undertaken to compare fundraising activity and state operating funding support during the period FY1997 – FY2006. This research was inspired from an understanding of public choice theory, the correlation of endowment size and institutional quality rankings, and the cost of excellence study. I developed a quantitative study of Maryland 4-year public institutions over a 10-year period. My research analyzed the change in private giving in terms of the institutional endowment and treatment of state funding as the equivalent of spending from a *pseudo endowment*. Pseudo endowment is a ratio that simulates an unrestricted endowment necessary to support an equivalent spending level equal to state funding and will be explained in greater detail within the research design section of this article.**
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INTRODUCTION

The introduction to fundraising and state support requires recognition that state funding of higher education has become increasingly more restrained, requiring tuition and other funding sources to provide a proportionately greater percentage of public institutions' overall financing (Mumper, 2001). State and local appropriations per student have declined by 4 per cent in current dollars over the past two decades (College Board, 2007). Further, the long-term trend is for declining state support of higher education, with higher education becoming viewed more as a private benefit (Kirwin, 2006). State officials establish funding priorities between public higher education and competing programs, including K-12 education, public safety, medical assistance and transportation. With the pressures of balancing state budgets along with the knowledge that colleges and universities have other sources of funding, governors and legislators perceive higher education as being able to avoid short-term disasters when funding is reduced (Ruppert, 1996). In fact, colleges' efforts to raise funds through private giving may negatively influence state support (Ruppert, 1996, 2001; Johnstone, 1993). There is primary evidence to demonstrate that such a phenomenon has occurred in primary and secondary education (Office of Management and Budget [OMB], 2006).

The purpose of this study was to examine the relationship between the change in the level of institutional fundraising and changes in state funding at Maryland public 4-year institutions. As state institutions have been increasingly more engaged in fundraising, the question of the impact of private giving success on changes in state funding became more apparent in the context of increased fiscal constraint and as a mechanism to help ensure institutional competitiveness. An outcome of this research has been the ability to analyze fundraising and state funding among Maryland's HBIs and between the HBIs and TWIs.

RESEARCH QUESTIONS

I examined the relationship between the change in private giving and changes in state funding at Maryland public 4-year institutions and specifically the analysis of HBIs and TWIs through two research questions:

RQ1. What were the funding trends by institution of the past 10 years in terms of private giving, total state funding (operating and capital funding), endowment and the state pseudo endowment level?
RQ2. What were the enrollment trends by institution of the past 10 years relative to the funding trends in RQ1 (private giving, total state funding, endowment and the state pseudo endowment level)?
RQ1 and RQ2 served as the overview of the trends in funding, private giving and enrollment over the 10-year period, generating descriptive analyses for this research. RQ2 viewed the 10 years of institutional funding trends in terms of a full-time equivalent (FTE) student enrollment standardized measure. RQ1 enabled interpretation of the descriptive statistics pertaining to funding in more detail for the 10-year period for each institution, by Carnegie classification, and as a composite mean and median of all institutions in a given year and trends among the changes

in private giving and total state funding, including state operating and capital funding, the endowment, and the state pseudo endowment. The Carnegie classification distinguishes among institutions according to 'mission, clustering institutions with similar programs and purposes' (Swensen, 2000; Michael, 2005, p. 18). Specific variable definitions and calculations are contained in Table 1. Table 2 contains a variables schematic by research question that identifies those variables tested.

RESEARCH DESIGN

This study analyzed fundraising, operational and capital financial data retrospectively over 10 years, from Fiscal Year 1997 through Fiscal Year 2006 (Cox, 2009). Data were extracted retrospectively from existing databases and standardized financial reports. Legislative activities were researched using the Maryland Department of Legislative Services, Office of Information Systems database (Maryland Department of Legislative Services, 2004; 2007). Ten years of retrospective data were collected from each institution using Maryland Higher Education Commission (MHEC) standardized annual financial reports by institution, the Council for Aid to Education (CAE) database, the National Association of College and University Business Officers' (NACUBO) endowment study database and the Grapevine Survey of Higher Education Appropriations (Maryland Higher Education Commission, 2003; 2004; 2007; 2008; Council for Aid to Education, 2007; NACUBO, 2006; 2008). The opportunity to search audited financial statements of institutions and IRS Form 990s, the basis for much of MHEC, CAE and NACUBO data, was beneficial to complete the data set for this study.

I applied Light's (2005)*Four Pillars of High Performance* as the theoretical framework used to develop the research questions. Alertness, agility, adaptability and alignment were used as a context for analyzing the policies-in-use, the operationalization of state and institutional actions as demonstrated by the relationship between private giving, state funding and the need for institutions to remain competitive (Light, 2005). This required acknowledging the codified state policies that directly determine higher education funding, the policies-in-use. In addition, financial and operational data from several databases were extracted and analyzed for the change in state funding and private giving in terms of comparative units of measure for each public, 4-year institution in Maryland and in terms of aggregate data for all the institutions studied. The change was measured in two ways. First, the change between 2 consecutive fiscal years, and second, as the change in data between a given year and two fiscal years, prior or future. Standardized units of measure included use of FTE student and per capita divisors. The unit of analysis was the institution.

Variables were tested to demonstrate a relationship between enrollment, private giving, state funding and other variables within specified levels of probability (Stage and Manning, 2003). The research controlled for legislative initiatives that directly affect fundraising, such as the Maryland Private Donation Incentive Program (PDIP) that leveraged private donations with state incentive funding (Education

Table 1: Research questions: Data analysis procedures

Research questions	*Sources of data*	*Variables*	*Data analysis*
1. What are the funding trends by institution of the past 10 years in terms of private giving, total state funding (operating and capital funding), endowment and the state pseudo endowment level?	Maryland Higher Education Commission Data Book MHEC Peer Performance Analysis Voluntary Support of Education Survey NACUBO Endowment Study	Total private giving Total private giving w/o Private Donation Incentive Program (PDIP) Change in state funding w/o PDIP Endowment expenditure ratio State funding w/o PDIP Endowment market value State pseudo endowment	Descriptive statistics Trends among ratios – endowment expenditure ratio, pseudo endowment state funding ratio, scatterplots Measures of central tendency, including mean and median by institution, Carnegie Classification, and fiscal year total composite among all institutions Measures of variability including the range, minimum and maximum, variance, and standard deviation
2. What are the enrollment trends by institution of the past 10 years relative to the funding trends in RQ1 (private giving, total state funding, endowment and the state pseudo endowment level)?	Maryland Higher Education Commission Data Book Voluntary Support of Education Survey NACUBO Endowment Study	Full-time equivalent (FTE) student enrollment Total private giving without PDIP per FTE student State funding w/o PDIP per FTE Student Endowment per FTE student State pseudo endowment per FTE student Change in total private giving per FTE student Change in state funding per FTE student Change in state funding w/o PDIP FTE student Change in state funding w/o PDIP per FTE student in 2 fiscal years Budgeted expenditures per FTE student Capital budget per FTE student	Descriptive statistics Trends among ratios endowment expenditure ratio and pseudo endowment state funding ratio, in terms of per FTE student, scatterplots Measures of central tendency, including mean and median per FTE student by institution, Carnegie classification and year Measures of variability including the range, minimum and maximum, variance, and standard deviation of the change in private giving, change in state funding per FTE student

Article, § 17, 2008c). The annual reporting and funding required of the program presumably raised the awareness level among institutional leaders and state policymakers. Such incentive programs may work to institutionalize development within the administrative infrastructure, which

Table 2: Variables schematic by research question

Research question 1		
Total private giving	=	Unrestricted + Restricted (including capital giving)
Total private giving w/o PDIP (Private Donation Incentive Program eligible contributions)	=	Total private giving – PDIP eligible contributions
Total private giving minus PDIP	=	Total private giving w/o PDIP
Change in state funding w/o PDIP next FY	=	State funding w/o PDIP FY + 1 – Total state funding w/o PDIP
State funding w/o PDIP	=	State unrestricted operating revenues FY + 1
State funding w/o PDIP funds NEXT FY	=	State funding w/o PDIP
Endowment market value (MV)		
Endowment expenditure ratio	=	Endowment MV÷Budgeted operating expenditures
State pseudo endowment	=	State funding÷5%
Research question 2		
Total private giving w/o PDIP per full time equivalent (FTE) student	=	Total private giving w/o PDIP÷FTE student
State funding w/o PDIP per FTE student	=	State funding w/o PDIP÷FTE student
Endowment per FTE student	=	Endowment MV÷FTE student
State pseudo endowment per FTE student	=	State pseudo endowment÷FTE student
Change in total private giving per FTE student	=	(Total private giving FY÷1 – Total private giving FY)÷FTE student
Change in state funding per FTE student	=	(State funding FY÷1 – State funding FY)÷FTE student
Change in state funding w/o PDIP per FTE student	=	State funding w/o PDIP per FTE student FY + 1 – State funding w/o PDIP per FTE student FY
Change in state funding w/o PDIP per FTE student in 2 FYs	=	State funding w/o PDIP per FTE student FY + 2 – State funding w/o PDIP per FTE student FY
Budgeted expenditure per FTE student	=	Budgeted expenditure÷FTE student
Capital budget per FTE student	=	Capital budget÷FTE student

may generate sustained and substantial private giving over time.

I used 13 cases based on 10 years of data from 13 Maryland 4-year public institutions in this study. This included the 11 institutions within the University System of Maryland, three of which are masters degree granting HBIs, Morgan State University, a doctoral HBI and St Mary's College (see Appendix for institution list). The broad institution-type based on the Carnegie Classifications was used as a categorical variable to group institutions by similar traits. This entire population was included in the data analysis, and the limits in generalizability to other institutions

were recognized. The data set included up to $N = 130$ elements of data, with 13 institutions generating 10 annual data figures.

I examined fundraising patterns of Maryland's public 4-year institutions and how this related to changes in state funding of operations and capital projects, revenue sources, expenditures, and fund reserves in the succeeding year. Use of a single state with state higher education policy coordinated through a single commission controlled for policy variation that may have occurred among different states. My intent was to understand the total private giving, a combination of restricted and unrestricted giving in support of capital and operating functions of the institution, along with total institutional endowments.

Similarly, RQ2 incorporated the effects of enrollment on the variables in RQ1. An FTE student divisor for each institution was used to calculate the trends among each variable in RQ2. Calculations for both RQ1 and RQ2 of the percentage change for each revenue variable (for example, private giving and total state funding) were performed between current year and next fiscal year and 2 fiscal years in the future. This analysis helped generate an understanding of the changes in funding between institutions and fiscal years, in terms of proportion of the state budget dedicated to higher education funding. Measures of central tendency and variability of total private giving and state support by institution was analyzed by Carnegie-based classification and fiscal year.

I structured a research design requiring a basic understanding of institutional fundraising. Specifically, the seven terms below are important in understanding this work.

Endowment expenditure ratio (EER) is the measure of the endowment size divided by the total institutional expenditures (Schneider, 2006). The ratio can be used as a performance indicator for comparison of the wealth capacity and private giving productivity. The EER is presented as the percentage of endowment market value to institutional operating funds. The EER never exceeded 100 percent for any institution during this period, meaning the endowment was less than the total operating budget.

Expenditures generally refer to the costs incurred for instruction, research, public service, academic support, student services, institutional support, scholarships and fellowships, and operations and maintenance of facilities (Council for Aid to Education [CAE], 2007). Auxiliary enterprises, hospital services and other independent operations were not included in this research's use of the term expenditure.

Foundation is a private tax-exempt entity that has been created for charitable purposes. A foundation related to a university or college may be considered a component unit of that institution (CAE, 2007).

Fundraising and private giving, considered synonymous, involve the efforts and outcomes of soliciting gifts for the institution (Worth, 2002).

Indicators represent ratio measures, percentages or other quantitative values that allow an institution to measure and compare its position in key strategic areas to peers, past performance or previously established goals (Taylor and Massy, 1996). For

example, the EER is a broad-based measure designed to demonstrate the ability of an endowment to support and sustain the operations of an institution, accounting for private giving that is permanently endowed (Schneider, 2006).

Pseudo endowment, or state pseudo endowment, is a ratio that simulates an unrestricted endowment necessary to support an equivalent spending level equal to state funding. Using an assumed average endowment spending rate of 5 percent, if the institution receives US$25 million in state funding, the pseudo endowment ratio would be calculated by dividing the $25 million by the 5 percent spending level. The quotient, or endowment size, would equal $500 million. The pseudo endowment, in this example $500 million, would be necessary to produce the equivalent level of funding that the state provides. The pseudo endowment ratio represents a wealth measure of the institution encapsulating the state assets necessary to produce the state operating funding. The pseudo endowment recognizes the on-going presence of state funding, although subject to annual funding gyrations and, in many states, an overall reduction over time. This variable can be used in comparison with other institutions, both public and private.

Restricted gift is an asset with a use limited by donor stipulations that neither expire nor can be changed to unrestricted by the institution (NACUBO, 2008).

FINDINGS

As I analyzed individual HBIs, nuances were exposed that shaped the ability to make generalizations among the population of institutions. Specifically, what appeared as a substantial increase in state support of HBIs, offsetting previous reductions, was at least partially comprised of restricted funds being reclassified to unrestricted and used to support general operations. The alert institution would have seen the net change in total state funding, not just an increase in unrestricted funding (Light, 2005). Initially, an institution could adapt to the net change while the robust institution may become more agile in developing other revenues (Light). The findings demonstrated that previously restricted grant program funds were shifted to the operating budget. From a technical perspective, this portion of the operating funding increase supplanted restricted funding.

As indicated in Table 3, the mean total private giving among HBIs per FTE student of $429 was less than one-third of that of TWIs at $1583. The mean EER for HBIs of 0.155 during this period was also about one-third smaller than the EER for TWIs at 0.236. Interestingly, when examining the pseudo endowment, the state assets supporting operating funding, the medians of both the HBIs and TWIs were similar. The mean for the pseudo endowment indicated substantially more state assets were supporting TWIs than HBIs per FTE student at $163 068 and $130 130, respectively. Overall, less private giving and state financial resources were available to students of HBIs over the 10-year period. However, it is important to note that the types of institutions and the programs differ between HBIs and TWIs, which relates to the costs and level of state support

Table 3: Descriptive statistics – Four historically black institutions of Maryland comparison to other Maryland public 4-year institutions with private giving, change in state funding and endowment characteristics per FTE student (FY1997 – FY2006)

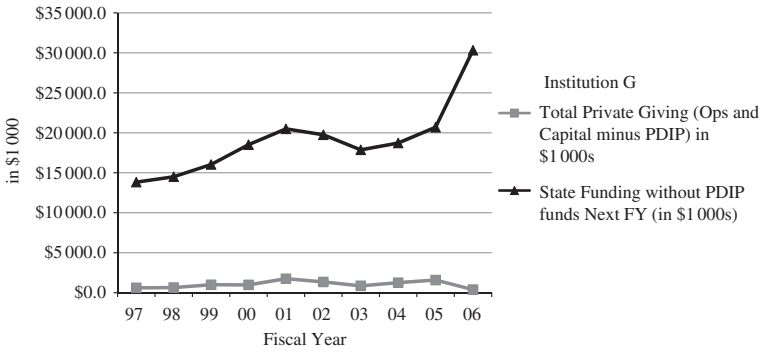
HBI/HWI	*Total private giving per FTE student*	*Change in state funding per FTE student in 2 FYs*	*EER plus 1 FY*	*Endowment per student FTE*	*Pseudo state endowment per FTE student*
HBI					
N	30	36	24	30	40
Mean	$429	$752	0.155	$2027	$130 130
Median	$409	$726	0.136	$1685	$131 922
SD	$259	$992	0.069	$1026	$23 496
Minimum	$53	–$929	0.030	$591	$83 599
Maximum	$1121	$3680	0.280	$4818	$177 593
TWI					
N	83	81	78	84	90
Mean	$1583	$606	0.236	$6311	$163 068
Median	$715	$514	0.194	$3712	$131 378
SD	$2255	$1309	0.160	$7430	$132 312
Minimum	$54	–$4079	0.030	$403	$11 048
Maximum	$10 671	$4855	0.600	$31 906	$583 389
Total					
N	113	117	102	114	130
Mean	$1277	$651	0.217	$5183	$152 933
Median	$507	$565	0.166	$2353	$131 806
SD	$2001	$1218	0.148	$6664	$111 704
Minimum	$53	–$4079	0.030	$403	$11 048
Maximum	$10 671	$4855	0.600	$31 906	$583 389

per student. Further, dollars do not reflect the effects of inflation during this period.

Figure 1 features a rather steep slope in the state funding line from FY2005 to FY2006, traits shared by the three masters-level HBIs in Maryland. Each of these institutions had rather sporadic flows of total private giving year to year. Each had lower total private giving at the end of the period than at the beginning.

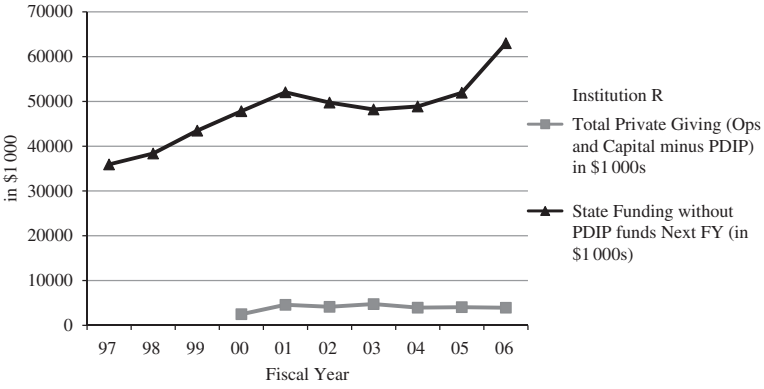
The remaining HBI, a doctoral institution, did not appear to have as steep a slope for the same period although it was a greater change than many institutions (Figure 2). The doctoral HBI did report an increase of approximately 60 percent in annual total private giving during the period.

Figure 3 displays an oscillating pattern for the rate of change in total private giving without PDIP funds with an overall negative slope



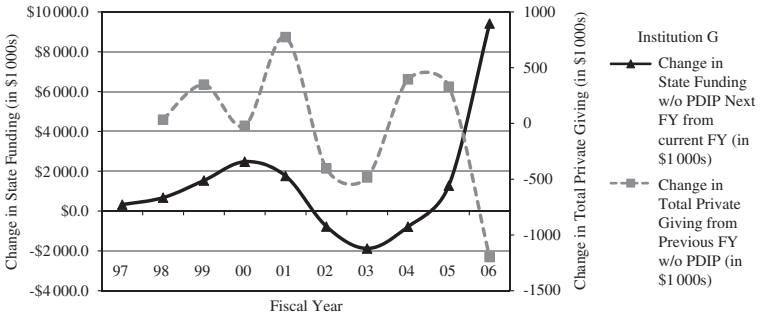
Institution G	FY	Total Private Giving (Ops and Capital minus PDIP) in $1 000s	State Funding without PDIP funds Next FY (in $1 000s)
	97	$614.8	$13 832.2
	98	$648.3	$14 504.2
	99	$996.6	$16 038.3
	00	$975.5	$18 515.1
	01	$1 749.5	$20 494.2
	02	$1 345.9	$19 755.3
	03	$861.7	$17 874.9
	04	$1 256.6	$18 725.1
	05	$1 586.6	$20 689.2
	06	$388.4	$30 329.6

Figure 1: Total private giving and state funding (masters-level HBI).



Institution R	FY	Total Private Giving (Ops and Capital minus PDIP) in $1 000s	State Funding without PDIP funds Next FY (in $1 000s)
	97		$35 922.0
	98		$38 358.2
	99		$43 458.9
	00	$2 475.4	$47 797.8
	01	$4 569.5	$52 014.6
	02	$4 129.7	$49 722.5
	03	$4 741.9	$48 187.8
	04	$3 941.0	$48 859.6
	05	$4 052.0	$51 928.5
	06	$3 925.0	$62 984.7

Figure 2: Total private giving and state funding institution (doctoral, HBI).



Institution G	FY	Change in Total Private Giving from Previous FY w/o PDIP (in $1 000s)	Change in State Funding w/o PDIP Next FY from current FY (in $1 000s)
	97		$322.7
	98	$33.5	$672.0
	99	$348.3	$1 534.1
	00	-$21.2	$2 476.8
	01	$774.0	$1 763.4
	02	-$403.6	-$776.0
	03	-$484.2	-$1 880.5
	04	$394.9	-$787.2
	05	$330.0	$1 277.6
	06	-$1 198.2	$9 414.4

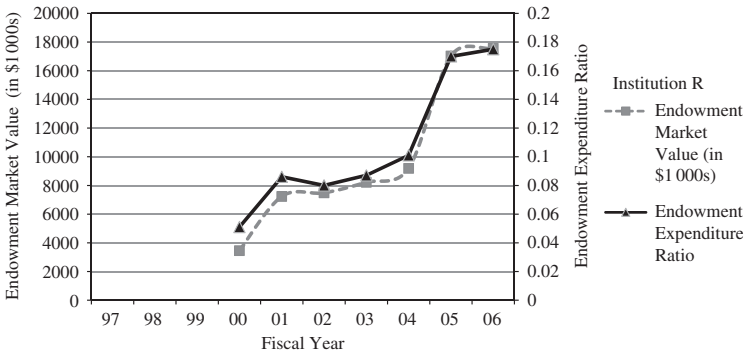
Figure 3: Change in total private giving and state funding (masters-level HBI).

for the masters HBI. The rate of change in state funding followed the institutional average; however, the final year reported of state funding indicated a substantial positive change in state funding. This rate of change from FY2005 to FY2006 was consistent among the HBIs.

Further review of the HBI doctoral institution, which is also an independent state institution, indicated a level of state support below the average of all institutions in FY2006 with a pseudo endowment of $1.04 billion (Figure 4). The HBI's EER of 0.175 lagged the total institutions' average of 0.279 for the same year. Conversely, the Maryland flagship university had an EER almost double the doctoral HBI's at 0.349 and a state pseudo endowment of $6.58 billion. Theoretically, state assets of more than six times the level of the doctoral HBI's supported the flagship while the ratio of endowment to operating expenditures was about half of the flagship institution.

I illustrated this point further, finding the EER averaged 0.217, representing the endowment market value to operating budget expenditures in the next fiscal year across all institutions (Table 4). This translated into the endowment market value equaling 21.7 percent of the total operating budget, with a range of 3–60 per cent.

Similarly, equating total state operating funding as similar to the spending generated from an endowment and assuming a 5 percent spending level, then during this 10-year period the mean state pseudo endowment would have been $1.16 billion, ranging from a low of $77.3 million to a high of $7.19 billion ($N = 130$). To put this in context, if the focus were on FY2006 data, the mean state pseudo endowment



Institution R	FY	Endowment Market Value (in $1 000s)	State Pseudo Endowment (in $1 000s)	Endowment Expenditure Ratio
	97		$684 228.0	
	98		$718 439.0	
	99		$767 165.0	
	00	$3 456.1	$869 178.0	5.1%
	01	$7 230.7	$958 239.0	8.6%
	02	$7 485.1	$1 040 692.0	8.0%
	03	$8 218.3	$1 021 765.0	8.7%
	04	$9 192.7	$963 757.0	10.1%
	05	$17 023.1	$977 193.0	17.0%
	06	$17 559.6	$1 038 571.0	17.5%

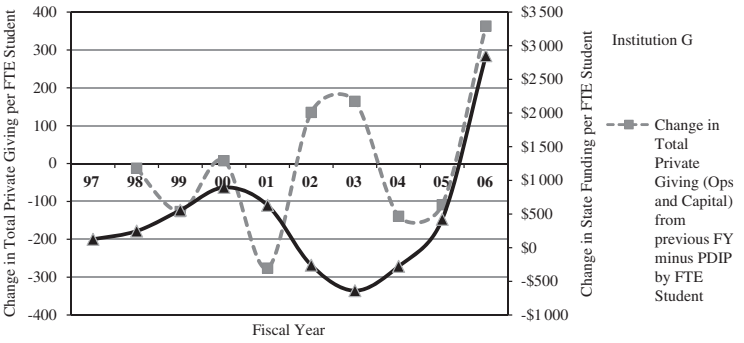
Figure 4: Endowment market value and endowment expenditure (doctoral, HBI).

Table 4: Descriptive statistics – Types of private giving and endowment (FY1997 – FY2006)

	Unrestricted giving	*Restricted giving*	*Capital giving*	*Endowment market value*	*EER plus 1 FY*	*State pseudo endowment*
N	108	108	106	114	102	130
Mean	$519 428	$8 441 134	$2 969 578	$43 955 114	0.217	$1 162 194 388
Median	$158 661	$1 159 878	$1 038 581	$13 138 086	0.166	$478 698 230
SD	$1 063 977	$16 652 114	$4 034 171	$75 921 950	0.147	$1 585 977 609
Minimum	$0	$151 801	$0	$2 400 000	0.03	$77 300 000
Maximum	$5 422 540	$71 426 291	$17 110 556	$332 483 219	0.60	$7 186 779 540

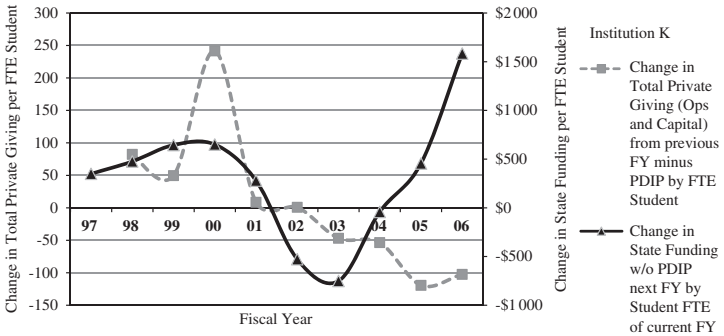
was $1.28 billion, similar to the endowment size during the same fiscal year of Indiana University and Swarthmore College, and the figure is approximately $1.1 billion below the endowment of Johns Hopkins University (NACUBO, 2006).

Figures 5–7 feature the HBIs within Maryland. Analyzing the descriptive statistics, I found each institution featured a substantial increase in rate of change in state funding w/o PDIP per FTE student in FY2006. As this represented the next fiscal year, the reference was actually to FY2007 budget data. During this fiscal year, the University System of Maryland had increased state funding of



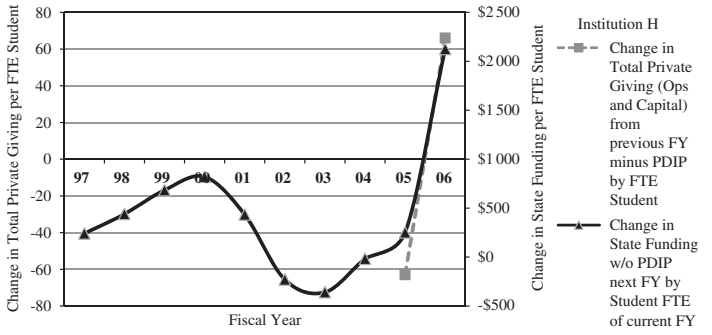
Institution G	FY	Change in Total Private Giving (Ops and Capital) from previous FY minus PDIP by FTE Student	Change in State Funding w/o PDIP next FY by Student FTE of current FY
	97		$125
	98	-$12.3	$247
	99	-$126.5	$557
	00	$7.6	$895
	01	-$276.1	$629
	02	$135.1	-$260
	03	$164.3	-$638
	04	-$139.1	-$277
	05	-$108.7	$421
	06	$362.9	$2 851

Figure 5: Rate of change in total private giving per FTE student and change in state funding per FTE student (masters, HBI).



Institution K	FY	Change in Total Private Giving (Ops and Capital) from previous FY minus PDIP by FTE Student	Change in State Funding w/o PDIP next FY by Student FTE of current FY
	97		$349
	98	$82.3	$476
	99	$49.6	$644
	00	$241.6	$650
	01	$8.6	$280
	02	$0.9	-$528
	03	-$46.8	-$751
	04	-$53.5	-$42
	05	-$119.3	$455
	06	-$102.4	$1584

Figure 6: Rate of change in total private giving per FTE student and change in state funding per FTE student (masters, HBI).



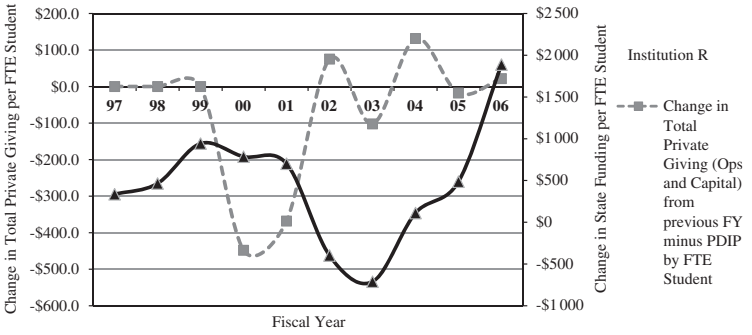
Institution H	FY	Change in Total Private Giving (Ops and Capital) from previous FY minus PDIP by FTE Student	Change in State Funding w/o PDIP next FY by Student FTE of current FY
	97		$241
	98		$440
	99		$684
	00		$820
	01		$434
	02		-$229
	03		-$359
	04		-$18
	05	-$62.9	$252
	06	$66.0	$2126

Figure 7: Rate of change in total private giving per FTE student and change in state funding per FTE student (masters, HBI).

12.5 percent while the doctoral HBI (Institution R) received increased state funding of 19.2 percent. Also, the $4.5 million Access and Success program that was previously an educational grant run through MHEC was transferred to the unrestricted operating appropriations of each of the HBIs (Burnett, 2006). What may have been viewed as a substantial increase in funding in each institution to offset previous reductions was partially due to shifting of funds from a previously restricted grant program to the operating budgets, potentially supplanting state funds. The total fiscal capacity of the HBIs had to be offset by the reduction of the MHEC grant program. Alert institutions would have seen the total change (Light, 2005).

I focused on the rate of change for the doctoral HBI during the final year studied (Figures 8 and 9), which corresponds to the FY2007 budget, and established that the state reduced the doctoral HBI's restricted funding by $1.5 million, although continued to fund $1.36 million in dedicated HBI enhancement funds. At the same time, state general funding increased $9.95 million, which included the $1.5 million previously restricted for the Access and Success Program (Maryland Legislative Services, 2006). The $9.95 million of additional operating funding did not represent entirely new funding. Approximately 15 percent of the change was shifted from restricted funding.

Theoretically, it is possible that no supplanting occurred, that the state



Institution R	FY	Change in Total Private Giving (Ops and Capital) from previous FY minus PDIP by FTE Student	Change in State Funding w/o PDIP next FY by Student FTE of current FY
	97	$0.0	$335
	98	$0.0	$464
	99	$0.0	$942
	00	-$448.1	$785
	01	-$368.1	$701
	02	$75.1	-$398
	03	-$102.2	-$712
	04	$131.5	$110
	05	-$17.6	$486
	06	$21.7	$1 888

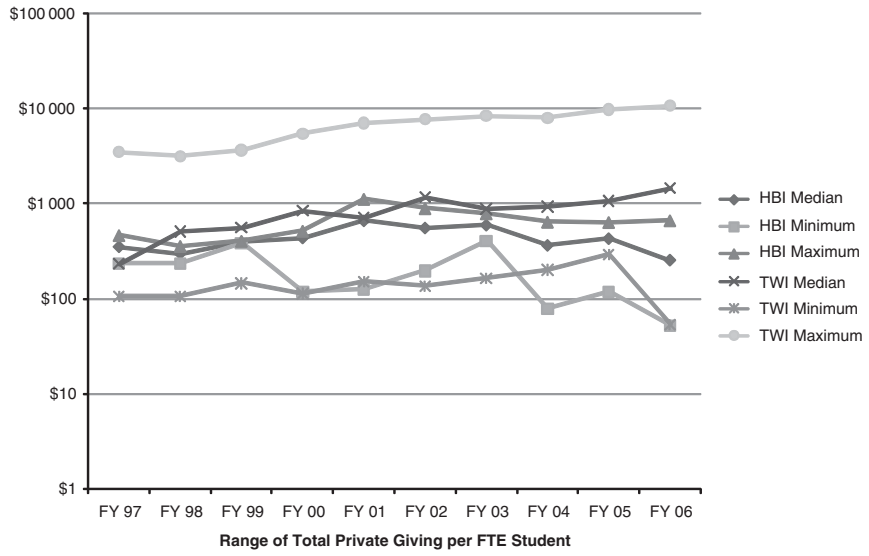
Figure 8: Rate of change in total private giving per FTE student and change in state funding per FTE student (doctoral, HBI).

had intended to fund $8.45 million in new operating funds and added the formerly restricted funds. The supporting documentation by the state suggests this to be the case. Given the fungibility of the categories of funding and the budget decision-making process, the issue of supplanting may become more evident over time. When funds have lost their restricted distinction and overall state funding becomes more constrained, reductions in funding may ultimately reduce state funds. If the previously restricted funds had helped offset unrestricted state funding reductions, or eventually were included in reductions, the net effect would have become supplanting of funds.

I compared HBIs and TWIs annually over the period, indicating lower amounts of private giving per FTE student (Figure 10), changes in state funding per FTE student that were tending to be equivalent until the final year when restricted funding became unrestricted for HBIs (Figure 11), and pseudo endowments per FTE student that tracked parallel to one another with the HBIs consistently lower (Figure 12).

CONCLUSION

This research examined private giving and state funding between HBIs and TWIs applying new indicator filters from which to analyze the data, namely the EER and the state pseudo endowment. The mean total private giving among HBIs per FTE student was less than one-third of that of TWIs. The EER for HBIs during this

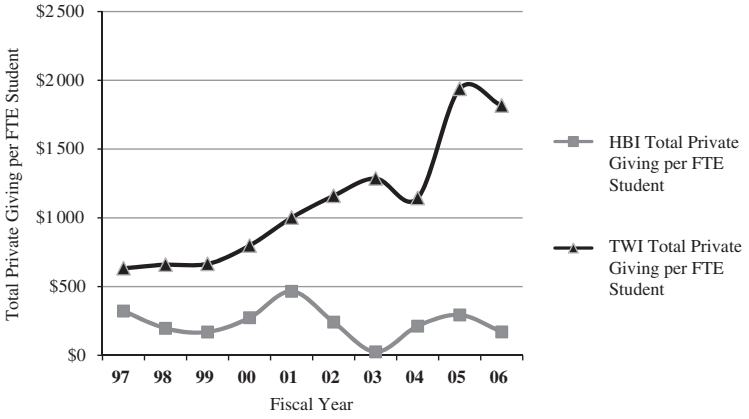


	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06
HBI Median	$354	$300	$399	$439	$668	$560	$600	$366	$431	$255
HBI Minimum	$239	$238	$389	$119	$127	$199	$409	$80	$119	$53
HBI Maximum	$468	$361	$408	$521	$1 121	$897	$792	$647	$642	$670
TWI Median	$234	$511	$560	$847	$714	$1 184	$881	$929	$1 066	$1 457
TWI Minimum	$106	$106	$147	$114	$153	$137	$166	$203	$294	$54
TWI Maximum	$3 545	$3 225	$3 713	$5 515	$7 100	$7 738	$8 381	$8 028	$9 714	$10 671

Figure 9: Range of total private giving per FTE student by HBIs and TWIs.

period was also about one-third smaller than the EER for TWIs. Interestingly, when examining the state pseudo endowment per FTE student, the theoretical assets necessary to support state funding of operations divided by institutional enrollment, the medians of both the HBIs and TWIs were similar. The mean for the state pseudo endowment per FTE student indicated substantially more state assets were supporting TWIs than HBIs per FTE student. On the surface, the implication among the funding sources studied was that overall less financial resources are available to students of HBIs as demonstrated by the assets of the state supporting operating funding. Yet, there was indication that the change in state funding per FTE student of HBIs was higher than that of the TWIs during 5 of the 10 years studied. Further research of program types and costs and distinction by institution types is necessary to draw more definitive conclusions.

I found no indication of supplanting of state funds with private giving while controlling for the PDIP. State policy served to encourage private giving and presumably protect the funds from supplanting. The alert and agile institutional leaders would have encouraged the state to continue a PDIP. This incentive program was directed at diversification of funding sources, sustaining institutional



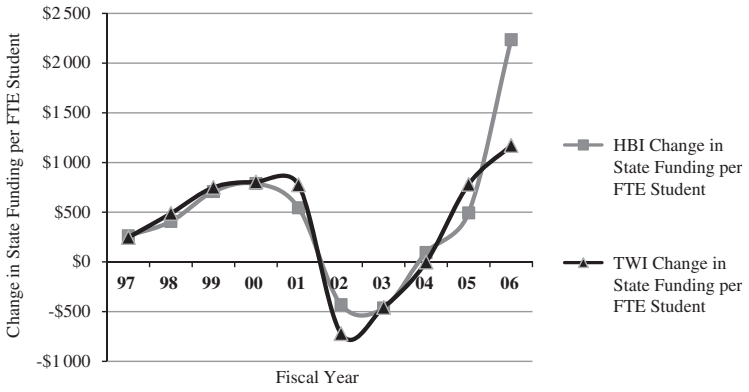
FY	HBI Total Private Giving per FTE Student	TWI Total Private Giving per FTE Student
97	$322	$633
98	$196	$659
99	$169	$665
00	$273	$798
01	$465	$1 001
02	$241	$1 160
03	$25	$1 286
04	$212	$1 144
05	$293	$1 938
06	$170	$1 816

Figure 10: Change in total private giving per FTE student by HBIs and TWIs.

operations and encouraging high performance (Zumeta, 2001; Light, 2005). However, the redesignation of restricted funds to unrestricted operating funds by the state found during this research raised the potential for supplanting public funds, particularly over time. The supplanting effect may be more subtle, taking several years to occur and involving other state actions unrelated to private giving.

While state law did mention supplanting in the context of restricting such action with the PDIP, supplanting theory needs to be formalized, building awareness and legitimizing its presence in public budgeting. Rooted in political economy and public choice theory, supplanting theory is more specialized (Buchanan and Tullock, 1967; Ostrom and Ostrom, 1971). Supplanting can affect partial changes in funding, rather than all the change in funding as would occur in zero sum theory (Thurow, 1987). Supplanting theory becomes more evident when a sudden, material increase in restricted funding occurs. If operational plans are not in place, there may be a tendency to shift current unrestricted expenditures to the restricted funds, thereby supplanting funds.

Supplanting theory can explain fragile expectations within public budgeting as institutions become used

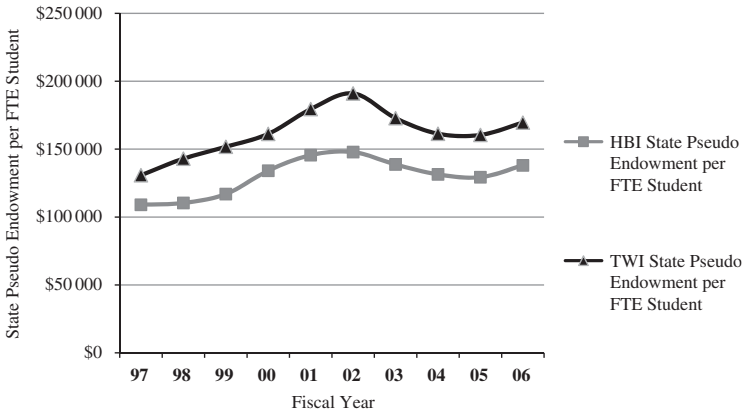


FY	HBI Change in State Funding per FTE Student	TWI Change in State Funding per FTE Student
97	$263	$246
98	$407	$488
99	$707	$749
00	$788	$804
01	$544	$775
02	-$430	-$721
03	-$463	-$458
04	$95	-$2
05	$493	$780
06	$2 235	$1 171

Figure 11: Change in state funding per FTE student by HBIs and TWIs.

to operating under-increased fiscal restraint. This is counter to Bowen's Revenue Theory (1980). Constitutional economics also supports supplanting theory, evident from the legislature's codification of restrictions on substitution of private giving for state appropriations (Buchanan and Tullock, 1967).

While I controlled for the PDIP, it became apparent that a progressive state match could serve to leverage state funding with private giving initiatives while providing increased incentives to small institutions and HBIs. This would help incentivize the development of a stable and legitimate advancement infrastructure that would increase fundraising. Although the specific aspects of this program were beyond this research, efforts to leverage state funding to expand institutional wealth, particularly in a period of fiscal constraint, could increase awareness of higher education within the philanthropic community and institutionalize advancement efforts into the future and assist HBIs by increasing successful private giving.



FY	HBI State Pseudo Endowment per FTE Student	TWI State Pseudo Endowment per FTE Student
97	$109 023	$130 740
98	$110 332	$142 938
99	$116 889	$151 677
00	$134 096	$161 192
01	$145 601	$179 454
02	$147 855	$191 022
03	$138 745	$172 788
04	$131 410	$161 317
05	$129 301	$160 406
06	$138 047	$169 493

Figure 12: Pseudo state endowment per FTE student by HBIs and TWIs.

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APPENDIX

Maryland public 4-year colleges and universities

Maryland Higher Education Commission – Coordinating Board

Morgan State University, a historically black university

St Mary's College of Maryland, a public honors college

University System of Maryland
Bowie State University, a historically black university
Coppin State University, a historically black university
Frostburg State University
Salisbury University
Towson University
University of Baltimore
University of Maryland Baltimore
University of Maryland Baltimore County
University of Maryland College Park, the flagship institution;
University of Maryland Eastern Shore, a historically black university
University of Maryland University College.