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## Assessment of sources and utilization of funding of state universities and colleges

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## Assessment of Sources and Utilization of Funding of State Universities and Colleges

*Rosario G. Manasan and Ma. Laarni D. Revilla*

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**ASSESSMENT OF SOURCES AND  
UTILIZATION OF FUNDING OF  
STATE UNIVERSITIES AND COLLEGES**

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**April 2015**

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## **Abstract**

The implementation of the “Higher Education Modernization Act of 1997,” CHED Memorandum Order No. 20, and “Public Higher Education Reform Framework” granted state universities and colleges (SUCs) the right to corporatize and manage their own incomes. Given these laws and rules, an assessment/review on the income collection and utilization of SUCs has become mandatory. This study aims to review the specific sources of internally generated incomes (IGI) of SUCs and analyze how these incomes are allocated and utilized. It also evaluates the shares of the national government (NG) subsidy and internally generated income in terms of collection and usage. The study is intended to provide some guidance on how to increase SUCs’ internally generated income and ensure that the utilization of the same is focused on their instruction, research and extension activities in a manner that is complementary with the regular subsidy provided to SUCs by the national government (NG). The study, however, does not cover an issue, which is just as important, if not more so: the accuracy and integrity of the SUCs’ Financial Accountability Reports (as submitted to DBM).

**Keywords:** state universities and colleges (SUCs), income utilization, national government subsidies, internally generated income, receipts, expenditures, income generating projects (IGPs), special trust fund, revolving fund

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## List of Acronyms

AGDBs	- Authorized Government Depository Banks
BOR/T	- Board of Regents/Trustees
BSU	- Benguet State University
CHED	- Commission on Higher Education
CMO	- CHED Memorandum Order
CNA	- Collective Negotiation Agreement
CO	- Capital Outlay
COA	- Commission on Audit
CSU	- Cagayan State University
DBM	- Department of Budget and Management
DBP	- Development Bank of the Philippines
DepEd	- Department of Education
DOST	- Department of Science and Technology
FGD	- Focus Group Discussion
GAA	- General Appropriations Act
GAS	- General Administrative Services
HEDF	- Higher Education Development Fund
HYSA	- High-yield Savings Account
IGIs	- Internally Generated Income
IGPs	- Income Generating Projects
JO	- Job Orders
LGUs	- Local Government Units
MOOE	- Maintenance and Other Operating Expenditures
NBC	- National Budget Circular
NG	- National Government
NGOs	- Non-government Organizations
PDAF	- Priority Development Assistance Fund
PHEIs	- Private Higher Education Institutions
PS	- Personal Services
PUP	- Polytechnic University of the Philippines
RF	- Revolving Fund
SIE	- Statement of Income and Expenses
STF	- Special Trust Fund
SUCs	- State Universities and Colleges
TUP	- Technological University of the Philippines
UP	- University of the Philippines



## Executive Summary

The implementation of the “Higher Education Modernization Act of 1997,” CHED Memorandum Order No. 20, and “Public Higher Education Reform Framework” granted state universities and colleges (SUCs) the right to corporatize and manage their own incomes. Thus, given these laws and rules, an assessment/review on the income collection and utilization of SUCs has become mandatory. This study aims to review the specific sources of internally generated incomes (IGI) of SUCs and analyze how these incomes are allocated and utilized. It also evaluates the shares of the national government (NG) subsidy and internally generated income in terms of collection and usage.

Data revealed that total SUCs receipts grew by 8% yearly on the average from PhP 21.8 billion in 2003 to PhP 42.5 billion in 2012. However, the growth in total SUCs receipts was not enough to compensate for inflation and the growth in number of students combined. Thus, total SUCs receipts per student in 2000 prices in 2012 (PhP 20,600) is lower than its 2003 level (PhP 25,800) and its peak level in 2007 (PhP 27,500).

SUCs in the aggregate have made some progress towards greater fiscal self-reliance in 2003-2012. A shift in the composition of SUCs’ receipts in favor of internally generated income is evident during the period as SUCs’ receipts from their internally generated income grew more than thrice as fast as NG subsidy during the period. However, the nominal growth in SUCs internally generated income, which indicates SUCs self-reliance, decelerated after the initial surge in 2003-2006.

Moreover, the share of income from students, which accounts for the major part of SUCs total internally generated income, has increased from 63% in 2003 to 70% in 2012. This was achieved largely by raising other school charges rather than increasing tuition fees *per se* as SUCs have tried to deflect the students’ protests that are associated with tuition fee increases.

On the other hand, contrary to expectations that IGPs will make a significant contribution towards making SUCs more self-reliant financially, the contribution of IGPs in total SUCs receipts has remained modest and has, in fact, dwindled in 2003-2012. Also, several practices hampers the monitoring and analysis of the results of operations of each individual IGPs which is important in evaluating whether said IGPs are actually making a net contribution to the SUCs coffers.

In terms of uses of funds, the growth in total SUCs spending in 2003-2012 was not enough to keep pace with both inflation and the growth in SUCs enrollment. As a result, total SUCs expenditures per student in 2000 prices went down from PhP 24,300 in 2003 to PhP 19,300 in 2012. Spending on personal services (PS) captured the lion’s share (68%) in total SUCs spending during the period. On the other hand, MOOE and CO accounted for 24% and 8%, respectively. However, the share of PS in total SUCs expenditure declined from 76% in 2003 to 68% in 2012. This contraction in the relative share of PS in total SUC spending is indicative of the underfunding of PS among SUCs.

On the average, 90% of total PS spending of all SUCs in the aggregate was funded from the NG subsidy in 2003-2012 compared to 40% for MOOE and 34% for CO. The share of SUCs spending that is funded from NG subsidy contracted for all economic categories between 2003 and 2012. To wit, the share of NG subsidy in total PS spending of all SUCs went down from 93% in 2003 to 88% in 2012 while that of MOOE shrank from 54% to 33% and that of CO spending decreased from 40% to 2%. MOOE received higher priority in the allocation of SUCs internally generated income compared to CO and PS, with PS receiving the lowest priority.

The FGDs conducted for this study reveal that SUCs use their internally generated income that are lodged in their STFs/ RFs for the salaries of part-time and contractual faculty and lecturers because the PS budget from GAA is not enough to cover all their PS requirements. However, the use of the SUCs' internally generated income for PS appears to be stymied by inconsistency between the provisions of COA Circular No. 2000-002 and that of the GAA for various years with regards to the use of SUCs IGI for PS. This results in some unevenness in the way COA auditors treat SUCs in this respect and in the lower allocation for PS from the IGI despite some evidence of PS underfunding.

The non-uniform treatment of SUCs' use of their IGI to pay for PRAISE incentives, CNA benefits and other allowances by COA auditors has also been observed. SUC officials argue that COA Circular 2000-002 provides that SUCs may use their internally generated income for the payment of allowances to teachers. On the other hand, the concerned COA auditors point out that, as per the Civil Service Commission, PRAISE incentives should be sourced from the SUCs' savings while the CNA benefits are meant to be paid out of the SUCs GAA appropriations.

Function-wise, while the majority (74%) of SUCs' total spending is allocated to instruction/ education in 2012 the shares of GAS (18%) and auxiliary services (3%) in total SUC spending appear to be disproportionately large relative to research and extension (which each received 2% of the total SUC spending) considering that research and extension are two of the three core mandates of SUCs.

Furthermore, there have been issues and concerns relating to the fiscal surplus of SUCs. Note that while the fiscal surplus of all SUCs in the aggregate appears to be large, the fiscal surplus numbers do not appear to be quite as significant if one looks at the fiscal surplus of individual SUCs. Also, the fiscal surplus numbers of SUCs do not look as alarming if one compares the SUCs' fiscal surplus with their total receipts. On the average, the fiscal surplus of all SUCs in the aggregate is equal to 7% of their total receipts (or equivalent to a month's worth of receipts) in 2006-2012.

Given these findings, the study recommends the following:

- (i) Adopt a socialized tuition fee scheme by SUCs and allocate increased funding to student financial assistance programs by the national government coupled with improved targeting of the financial assistance to poor students in order to help SUCs achieve some balance between the need to improve resource generation and the need to ensure the poor's access to higher education;

- (ii) Enjoin SUCs to offer programs which are not part of their core mandates provided they operate the delivery of said programs on a self-sustaining basis by charging tuition fees that approximate the amount need for full cost recovery;
- (iii) Strengthen the financial management of IGPs to ensure that SUCs' IGPs are making a positive net contribution to the coffers of SUCs;
- (iv) Focus the use of the internally generated income of SUCs on their core mandates by revisiting the allocation for production in CMO 20-s2011 and rationalizing the allowances and other benefits that may be charged against the internally generated income of SUCs;
- (v) Resolve the inconsistency between the provisions of COA Circular No. 2000-002 and those of the General Appropriations Act with respect to the use of SUCs' internally generated income for the creation of new positions and the payment of salaries and allowances of regular/ permanent, contractual, and part-time faculty;
- (vi) Improve expenditure programming and procurement planning so as to minimize delays in project implementation to ensure that the benefits are realized sooner rather than later;
- (vii) Explore greater flexibility in the use of some of the fiduciary fees (e.g., library fees, athletic fees) that SUCs collect;
- (viii) Offer the Grades 11 and 12 in SUCs, at least in the interim, to enable SUCs to recover (fully or partially) the income they are likely to lose when the Senior High Program starts in school year 2016.

# ASSESSMENT OF SOURCES AND UTILIZATION OF FUNDING OF STATE UNIVERSITIES AND COLLEGES

*Rosario G. Manasan*  
*Ma. Laarni D. Revilla*

## 1. INTRODUCTION

Funding support for the different state universities and colleges (SUCs) come from the following: (1) government subsidies allocated in the General Appropriations Act (GAA); (2) incomes generated from various sources such as fees and charges, among others; (3) Higher Education Development Fund (HEDF) being managed by the Commission on Higher Education (CHED); (4) grants provided by both international and local institutions/entities; and (5) the Priority Development Assistance Fund (PDAF) prior to its abolition.

Republic Act 8292 or the “Higher Education Modernization Act of 1997” granted corporate powers to the Governing Boards of SUCs. RA 8292 not only effectively broadened the resource base of the SUC sector but also gave individual SUCs greater discretion in the utilization of the income they generate. Specifically, RA 8292 allow SUCs (i) to retain any income that they generate from tuition fees and other charges, the operation of auxiliary services and income generating projects and to utilize said income for instruction, research, extension and other SUCs programs in accordance with a budget approved by their Board of Regents/ Trustees (BOR/T), (ii) to enter into joint ventures with business and industry for the profitable development and management of their economic assets, the proceeds of which can be used for the SUCs’ development, and (iii) to privatize, when advantageous to the SUC, management and non-academic services such as health, building/ grounds maintenance and the like. In effect, these powers will allow SUCs to be more fiscally self-reliant by mobilizing increased funding support from all stakeholders (government, students, and the private sector) to augment budgetary support coming from national government appropriations. Moreover, it is envisioned that the delegation of resource allocation authority to the respective BOR/T of SUCs will result in improvements in the delivery of their core mandates: instruction, research and extension.

RA 8292 provides that tuition fees, other school charges and other income generated by SUCs shall be deposited in authorized government depository banks (AGDBs) and shall be constituted as a special trust fund (STF). In turn, Commission on Audit (COA) Circular No. 2000-002, which establishes the accounting guidelines and procedures that governs the use of SUCs income pursuant to RA 8292, provides, *inter alia*, that (i) “in no case shall the STF be used for the payment of salaries and creation of new positions,” and (ii) “the STF shall be used to augment MOOE and capital outlays of the university (college) and to pay authorized allowances and fringe benefits to teachers and students who render services to the school.” The issuance of CHED Memorandum Order (CMO) No. 20 dated August 4, 2011, further enhanced the policies and guidelines governing the use of income, special trust fund and programs of receipts and expenditures of SUCs. In particular, it provides indicative percentages of actual tuition fees collected that shall be allocated for instruction (including the payment of permanent faculty overload and faculty development, curriculum development, student development and of

facilities development), research, extension, production, administrative services, and mandatory reserves. On the other hand, the General Appropriations Act (GAA) from 2012 onwards also authorizes SUCs to use their income for the creation of additional positions, subject to the Department of Budget and Management (DBM) rules and regulations. In addition, the GAA of various years make reference to the adoption of measures implementing cost recovery and socialized scheme in the setting of tuition fees and other school fees. Likewise, the “Public Higher Education Reform Roadmap,” formulated in 2012, aims to improve SUCs’ efficiency through the maximization of resource generation and the rationalization of resource utilization in the SUC sector. Specifically, the said roadmap identifies the following strategies in support of the aforementioned thrust: (i) assets inventory and preparation and implementation of necessary business plans that will make use of idle lands and assets including engaging in income generating projects (IGPs) in partnership with the private sector, (ii) application of normative financing in the allocation of GAA resources, (iii) adoption of socialized tuition fee schemes, and (iv) improvements in public financial management.

Sixteen (16) years since the grant of corporate powers to SUCs, a comprehensive assessment of resource generation and utilization in the SUC sector is but timely. In line with this, the present study will review and assess sources and uses of funds by SUCS and relate the use of SUCs’ incomes vis-à-vis the regular subsidy provided by the national government (NG).

As part of this assessment, this study reviewed and analyzed the financial statements that individual SUCs have submitted to the DBM and COA in 2006-2012. It also conducted focus group discussions (FGDs) with SUCs officials in various locations around the country: (i) Manila, (ii) La Union, (iii) Davao, and (iv) Bacolod. The FGDs included representatives from SUCs within and near each area. There was a total of 25 invited SUCs (see **Appendix A**), which were chosen based on their total enrollment. Further, online questionnaires (see **Appendix B**) were sent to those SUCs that were invited but could not send a representative to the FGDs.

The discussions during the FGDs revolved around the processes and issues involved in allocating and utilizing SUCs’ internally generated income (IGI). Through these FGDs, the SUCs were able to voice out their own experiences and issues in generating income and utilizing the same. The summary of responses made by SUCs respondents are available upon request from the authors. Insights from the FGDs were further enriched by a reading of COA Audit Reports.

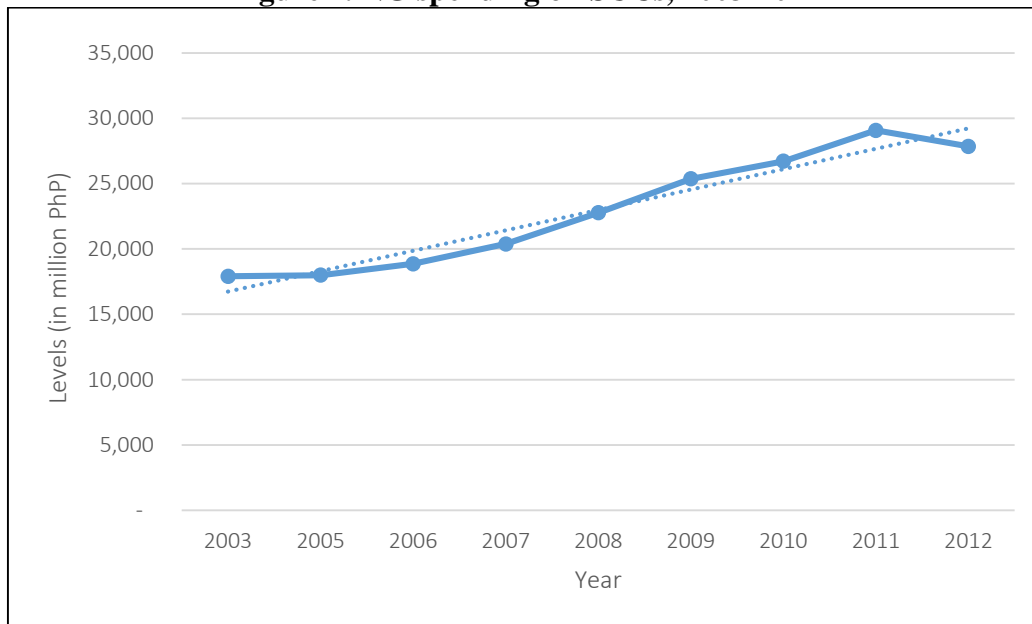
The succeeding sections of the paper are as follows. Section 2 gives an overview of the state of NG spending on higher education. Section 3 analyzes the sources of SUCs receipts while Section 4 analyzes the utilization of SUCs funds based on their Consolidated Statement of Receipts and Expenditures as submitted to the DBM. Section 4 also includes a discussion of the issues related to the processes involved in allocating and utilizing SUCs’ own income that emerged from the FGDs and a reading of COA Audit Reports. On the other hand, Section 5 tackles issues of SUCs fiscal surpluses. Finally, Section 6 concludes the paper and provides policy recommendations.

## 2. OVERVIEW OF NATIONAL GOVERNMENT SPENDING ON HIGHER EDUCATION

The government's spending on public higher education exhibited a well-defined upward trend in 2003-2012 (**Figure 1**). However, a slowdown in the growth in NG spending on higher education is evident in more recent years (i.e., 2009-2012) relative to earlier years (i.e., 2003-2009). Said deceleration in the growth of NG spending on SUCs is consistent with the government's thrust for SUCs to be more self-reliant in terms of generating income.

The impact of this movement on per student NG spending on SUCs is magnified given that the growth in total SUCs enrollment accelerated quite dramatically during the period, from 3% yearly on the average in 2003-2009 to 12% yearly on the average in 2009-2012 (**Figure 2**). Such rapid expansion in SUCs enrollment without a corresponding increase in NG subsidy to SUCs means that SUCs have to find ways to be more financially ready to meet the needs of their students for additional faculty, equipment, and other facilities.

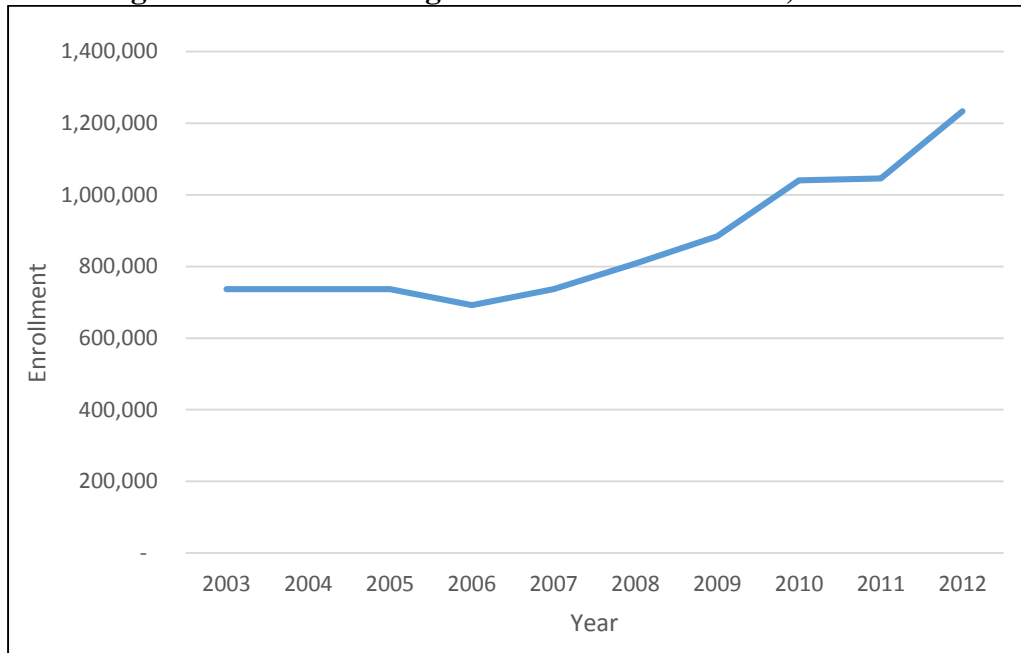
**Figure 1. NG spending on SUCs, 2003-2012**



Source of basic data: DBM

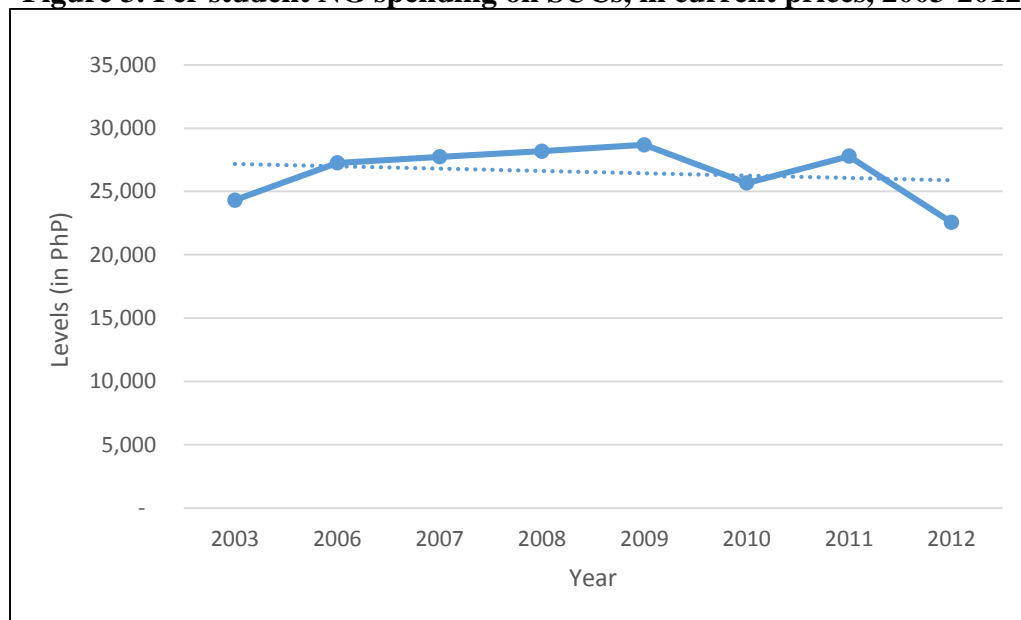
While per student NG spending in current prices appears to be fairly stable in 2003-2012 (**Figure 3**), per student NG spending in 2000 prices exhibited a sharp downward trajectory during the same period (**Figure 4**). As discussed earlier, this trend may be explained by the anemic growth NG spending on SUCs even as the enrollment in SUCs grew upwards of 10% in 2006-2012 (Manasan, 2012).

**Figure 2. Total SUCs higher education enrollment, 2003-2012**



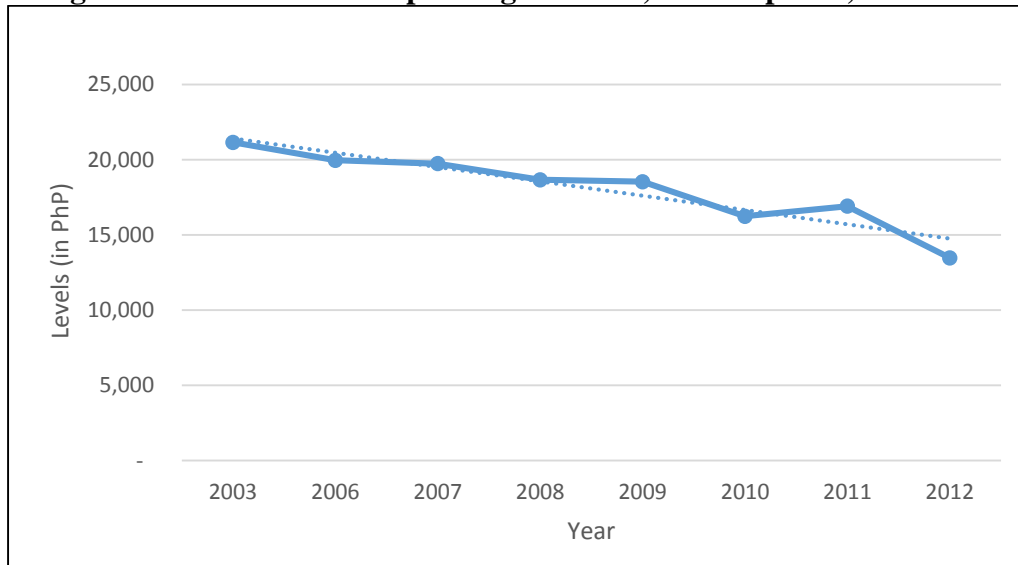
Source: CHED MIS

**Figure 3. Per student NG spending on SUCs, in current prices, 2003-2012**



Source of basic data: DBM and CHED MIS

**Figure 4. Per student NG spending on SUCs, in 2000 prices, 2003-2012**



Source of basic data: DBM and CHED MIS

### 3. SOURCES OF FUNDS

Total SUCs receipts grew from PhP 21.8 billion in 2003 to PhP 42.5 billion in 2012 (**Table 1**). While the 8% average yearly increase in SUCs receipts in 2003-2012 is higher than the average yearly growth in higher education enrollment in SUCs during the same period, it is not enough to compensate for inflation and the growth in number of students combined. Thus, total SUCs receipts per student in 2000 prices in 2012 (PhP 20,600) is lower than its 2003 level (PhP 25,800) and its peak level in 2007 (PhP 27,500) [**Table 2**].

**Table 1. SUCs receipts, by major source, 2003-2012**

	NG subsidy	Internally generated income	Total receipts	NG subsidy	Internally generated income	Total receipts	No. of SUCs higher education students
<b>Levels (in million pesos)</b>			<b>Distribution (%)</b>				
2003	17,906	3,903	21,809	82.1	17.9	100.0	736366
2006	18,857	6,625	25,482	74.0	26.0	100.0	691951
2007	20,372	7,995	28,367	71.8	28.2	100.0	733961
2008	22,769	9,650	32,419	70.2	29.8	100.0	808028
2009	25,363	10,771	36,135	70.2	29.8	100.0	884122
2010	26,710	11,124	37,834	70.6	29.4	100.0	1040859
2011	29,067	12,740	41,807	69.5	30.5	100.0	1045940
2012	27,845	14,668	42,513	65.5	34.5	100.0	1234125
<b>Growth rate (%)</b>							
2003-2006	1.7	19.3	5.3				-0.1
2006-2009	10.4	17.6	12.3				8.5
2009-2012	3.2	10.8	5.6				11.8
2006-2012	6.7	14.2	8.9				10.1
2003-2012	5.0	15.8	7.7				5.9

Source of basic data: DBM and CHED MIS



### 3.1. Major Sources of SUCs Receipts

In addition to the allocation that SUCs receive from the national government under the General Appropriations Act of various years, the “Higher Education Modernization Act of 1997,” authorized SUCs to retain and utilize their internally generated income. Thus, SUCs receipts come from two major sources: (i) NG subsidy, and (ii) internally generated income.

SUCs in the aggregate have exhibited some gains towards improving the financial sustainability of their operations in 2003-2012. While the subsidy from the national government continues to account for the bulk of total receipts of SUCs in 2003-2012, a shift in the composition of SUCs’ receipts is evident during the period. **Table 1** shows that the share of NG subsidy in total SUCs’ receipts contracted from 82% in 2003 to 66% in 2012. Conversely, the share of internally generated income expanded from 18% in 2003 to 35% in 2012. This came about as SUCs’ receipts from their internally generated income grew more than thrice as fast as NG subsidy between 2003 and 2012. To wit, SUCs’ internally generated income increased by an average of 16% per year in 2003-2012 while NG subsidy to SUCs rose by an average of 5% per year.

**Table 2. SUCs receipts per student, in current and in 2000 prices, by source**

	in current prices			in 2000 prices		
	NG subsidy	Internally generated income	Total	NG subsidy	Internally generated income	Total
<b>Levels (in pesos)</b>						
2003	24,317	5,300	29,617	21,163	4,613	25,775
2006	27,252	9,574	36,827	19,973	7,017	26,989
2007	27,739	10,886	38,625	19,749	7,750	27,499
2008	28,179	11,942	40,121	18,674	7,914	26,588
2009	28,687	12,183	40,871	18,542	7,875	26,417
2010	25,661	10,688	36,349	16,250	6,768	23,018
2011	27,790	12,181	39,971	16,918	7,415	24,333
2012	22,563	11,885	34,448	13,479	7,100	20,580
average				18,094	7,057	25,150
<b>Growth rate (%)</b>						
2003-2007	3.3	19.7	6.9	-1.7	13.8	1.6
2006-2009	1.7	8.4	3.5	-2.4	3.9	-0.7
2009-2012	-7.7	-0.8	-5.5	-10.1	-3.4	-8.0
2006-2012	-3.1	3.7	-1.1	-6.3	0.2	-4.4
2003-2012	-0.8	9.4	1.7	-4.9	4.9	-2.5

Source of basic data: DBM and CHED MIS

However, the progress that SUCs have achieved in the earlier years of the period under study in terms of greater self-reliance has faltered. The nominal growth in SUCs internally generated income decelerated after the initial surge in 2003-2006. As a result, the creditable nominal increase in SUCs internally generated income in 2009-2012 (10% per year) has not been enough to compensate for the combined effects of (i) inflation and (ii) the rapid increase in enrollment during the period. Thus, per student internally generated SUCs income in 2000 prices declined

from its peak level of PhP 7,900 in 2008-2009 to PhP 7,100 in 2012, roughly equal to its 2006 level (**Table 2**).

In comparison, the growth of NG subsidy to SUCs (7% yearly) is not only considerably slower than that of their internally generated income (14%) in 2006-2012 but is also no match to the growth in enrollment (10%) during the period (**Table 1**). Thus, per student NG subsidy to SUCs in nominal prices went down by 3% yearly on the average from PhP 27,200 in 2006 to PhP 22,500 in 2012. After adjusting for inflation, the decline in per student NG subsidy in 2000 prices is necessarily even sharper – 6% yearly on the average from PhP 20,000 in 2006 to PhP 13,500 in 2012 (**Table 2**).

### **3.2. Internally Generated Income of SUCs**

SUCs' internally generated income may be categorized into two major sources: (i) income from students, and (ii) income from the auxiliary services they provide (like dormitories, cafeterias/canteens and the like) and from the income generating projects they operate (like agricultural production, commercial activities and the like). In turn, SUCs income from students consists of (i) tuition fees, and (ii) other school charges like miscellaneous fees, matriculation fees, and laboratory fees.

It is typical for income from student-related fees such as tuition fees, affiliation fees, library fees, and other fiduciary fees to be constituted into a special trust fund (STF). On the other hand, income from their IGPs is constituted into revolving fund/s (RF). The RF is treated as a self-liquidating fund and the collections from this fund are used for the operating expenses of the IGPs. **Appendix C** shows examples of an STF and an RF from Benguet State University (BSU) for the year 2013. The examples exhibit the type of income collected under and the expenses directly charged against each kind of fund.

Income from students contributes the greater part of SUCs total internally generated income in 2003-2012. Moreover, the share of income from students in total SUCs internally generated income has increased during the period despite the numerous and stringent protests from students that usually follow increases in tuition and other school fees. On the average, close to 67% of total internally generated SUCs income in 2003-2012 were collected from students while 23% of total internally generated SUCs income was contributed by income from their income generating projects and other self-sustaining activities. Also, the share of SUCs receipts from students in total SUCs receipts expanded from 63% in 2003 to 70% in 2012 while that of SUCs income from their income generating projects and other self-sustaining activities contracted from 24% to 20% (**Table 3**).

**Table 3. Composition of internally generated income of SUCs, 2003-2012**

	Tuition Fees	Other Income Collected from Students	Total SUCs Receipts from Students	Income from IGPs and Self-sustaining Activities	Grants and Donations	Others	Total
2003	43.3	19.8	63.1	24.1	3.2	9.5	100.0
2005	47.3	19.0	66.3	22.0	1.3	10.4	100.0
2006	46.0	17.8	63.8	24.0	2.9	9.3	100.0
2007	47.2	17.8	65.0	25.9	2.4	6.6	100.0
2008	43.5	20.5	64.0	23.6	3.0	9.5	100.0
2009	41.4	22.0	63.4	24.3	3.0	9.2	100.0
2010	47.5	23.1	70.6	22.0	1.6	5.9	100.0
2011	46.5	25.6	72.1	17.8	2.0	8.1	100.0
2012	44.8	24.9	69.8	19.6	3.1	7.5	100.0
2006-2012	45.3	21.7	67.0	22.5	2.6	8.0	100.0
2003-2012	45.3	21.2	66.5	22.6	2.5	8.4	100.0

Source of basic data: DBM

### *Income from Students*

Tuition fees account for the bulk of total SUCs income from students all throughout 2003-2012. However, a shift in favor of “other income collected from other students” is evident during the period. Apparently, SUCs have tried to deflect the students’ protests that are associated with tuition fee increases by raising other school fees instead of tuition fees *per se*.

On the average, 68% of total income from students came from tuition fees while the remaining 32% was from “other income collected from students” in 2003-2012 (Table 4). While the growth in SUCs receipts from both tuition fees and “other income from students” were fairly significant in 2003-2012 (Table 5), receipts from the latter registered slightly better growth than receipts from the former. Thus, the share of tuition fees in total SUCs income from students contracted from a peak of 73% in 2007 to a low of 64% in 2012 while the share of “other income from students” expanded from 27% to 36% (Table 4).

**Table 4. Composition of SUCs income from students, 2003-2012**

	Tuition Fees	Other Income Collected from Students	Total
2003	68.6	31.4	100.0
2005	71.3	28.7	100.0
2006	72.1	27.9	100.0
2007	72.6	27.4	100.0
2008	68.0	32.0	100.0
2009	65.3	34.7	100.0
2010	67.2	32.8	100.0
2011	64.5	35.5	100.0
2012	64.3	35.7	100.0
2006-2012	67.7	32.3	100.0
2003-2012	68.2	31.8	100.0

Source of basic data: DBM

**Table 5. Internally generated income of SUCs, 2003-2012**

	Tuition Fees	Other Income Collected from Students	Total SUCs Receipts from Students	Income from IGPs and Self-sustaining Activities	Grants and Donations	Others	Total
<b>Levels (in million pesos)</b>							
2003	1,692	774	2,466	940	125	373	3,904
2005	2,683	1,079	3,762	1,245	73	589	5,669
2006	3,048	1,178	4,226	1,593	190	616	6,625
2007	3,770	1,426	5,196	2,076	194	529	7,995
2008	4,199	1,980	6,179	2,273	286	912	9,650
2009	4,461	2,371	6,832	2,619	327	992	10,770
2010	5,281	2,574	7,855	2,442	173	654	11,124
2011	5,921	3,260	9,181	2,270	257	1,032	12,740
2012	6,578	3,657	10,235	2,872	455	1,106	14,668
<b>Growth rate (%)</b>							
2003-2006	21.7	15.0	19.7	19.2	15.0	18.2	19.3
2006-2009	13.5	26.3	17.4	18.0	19.8	17.2	17.6
2009-2012	13.8	15.5	14.4	3.1	11.7	3.7	10.8
2006-2012	13.7	20.8	15.9	10.3	15.7	10.2	14.2
2003-2012	16.3	18.8	17.1	13.2	15.4	12.8	15.8

Source of basic data: DBM

Notwithstanding the increasing share of total SUCs income from students in 2003-2012, their potential to further increase the contribution of tuition fees and other school charges to total SUCs income continues to be significant. First, despite references in the General Appropriations Act (of various years as early as 2005) to the setting of tuition fees and other school charges that implement a cost recovery program without sacrificing access of poor students, SUCs income from students accounts for only 26% of total SUCs expenditures at the maximum in 2003-2012 (**Table 6**). Second, although the nominal growth in receipts from tuition fees and other SUCs income from students in 2006-2012 was creditable, it was whittled away by inflation and the growth in enrollment. Thus, per student receipts from tuition fees and other school charges in 2000 prices stood at PhP 3,184 in 2012, 13% lower than the peak level of PhP 3,655 in 2007 (**Table 7**). Third, school fees in SUCs are generally low when compared with those of private higher education institutions (PHEIs). Per student total SUCs receipts from students (i.e., sum of tuition fees and other income from students) in current prices is estimated to be PhP 8,300 in 2012 or about PhP 4,150 per student per semester, substantially lower than tuition fees and other school fees charged by PHEIs (**Table 7**). This is not surprising given that the modal average tuition fee per unit in the undergraduate program in SUCs has remained at PhP 100 in 2007-2012 (**Table 8**). The Cagayan State University (CSU) charges no tuition fee per unit, while the Polytechnic University of the Philippines (PUP) offers the next lowest tuition fee (PhP 12) among all SUCs during the same year. In contrast, the University of the Philippines (UP) has the highest tuition fee per unit (PhP 1,000) among all SUCs in 2012.

There is also a wide variation in per student SUCs receipts from school fees. For instance, per student SUCs receipts from tuition fees and other school charges in Region I (Ilocos) is 33% lower than the national average while that in Region IV-A (CALABARZON) is 38% higher than the national average (**Table 9**).

**Table 6. SUCs income from students vis-a-vis total SUCs expenditures, 2003-2012**

	Inc fr. students (1)	Total SUCs expd (2)	(1)/(2) %
2003	2,466	20,555	12.0
2006	4,226	24,241	17.4
2007	5,196	25,875	20.1
2008	6,179	29,428	21.0
2009	6,832	33,303	20.5
2010	7,855	36,106	21.8
2011	9,181	37,383	24.6
2012	10,235	39,772	25.7

Source of basic data: DBM

#### Issues related to tuition fees and other school charges

- SUCs officials invariably point to the difficulty of achieving a balance between the need to improve resource generation through some measure of cost recovery in the setting of tuition and other school fees and the need to ensure the poor's access to higher education (two of the objectives of the Higher Education Reform Agenda). There are several ways of addressing this. One is through the adoption of a socialized tuition fee scheme, similar to what the University of the Philippines (UP) implements, wherein the fees to be paid by the student depend on the family's income with lower income families being entitled to lower tuition fees than their better-off counterparts. Alternatively, the allocation of increased funding to student financial assistance programs by the national government coupled with improved targeting of the financial assistance to poor students will enhance inclusive access even if the degree of cost recovery in SUCs is increased. In contrast, to help improve cost recovery, some SUCs collect higher tuition fees for programs that are not part of their core mandate. One school, for example, collects higher tuition for three programs which are not part of their core mandate: Accountancy, Nursing, and Pharmacy programs. As such, said programs are treated as self-sustaining programs.
- Non-payment of tuition fees is a persistent challenge for many SUCs. Not all students are able to pay their tuition on time and in full. To help students, many SUCs offer academic and research scholarships and grants that usually come from the GAA, CHED, Department of Science and Technology (DOST), non-government organizations (NGOs), and other private benefactors.

**Table 7. Per student SUCs receipts, by source, in current and in 2000 prices, 2003-2012**

	in current prices							in 2000 prices						
	Tuition Fees	Other Income Collected from Students	Total SUCs Receipts from Students	Income from IGPs and Self-sustaining Activities	Grants and Donations	Others	Total	Tuition Fees	Other Income Collected from Students	Total SUCs Receipts from Students	Income from IGPs and Self-sustaining Activities	Grants and Donations	Others	Total
<b>Levels (in pesos)</b>								<b>Levels (in pesos)</b>						
2003	2,297	1,051	3,348	1,276	170	506	<b>5,300</b>	1,999	915	2,914	1,111	148	440	<b>4,613</b>
2006	4,405	1,702	6,107	2,302	275	890	<b>9,574</b>	3,228	1,247	4,475	1,686	201	653	<b>7,015</b>
2007	5,134	1,942	7,076	2,827	264	720	<b>10,887</b>	3,655	1,382	5,037	2,012	188	513	<b>7,750</b>
2008	5,196	2,450	7,646	2,813	354	1,129	<b>11,942</b>	3,444	1,624	5,068	1,865	234	748	<b>7,915</b>
2009	5,046	2,682	7,728	2,964	370	1,122	<b>12,184</b>	3,261	1,733	4,994	1,915	239	725	<b>7,873</b>
2010	5,074	2,473	7,547	2,346	167	628	<b>10,688</b>	3,213	1,566	4,779	1,486	105	398	<b>6,768</b>
2011	5,661	3,117	8,778	2,170	246	987	<b>12,181</b>	3,446	1,897	5,344	1,321	149	601	<b>7,415</b>
2012	5,330	2,963	8,293	2,327	369	896	<b>11,885</b>	3,184	1,770	4,955	1,390	220	535	<b>7,100</b>
average								3,179	1,517	4,696	1,598	186	577	<b>7,056</b>
<b>Growth rate (%)</b>														
2003-2007	22.3	16.6	20.6	22.0	11.6	9.2	<b>19.7</b>	16.3	10.9	14.7	16.0	6.2	3.9	<b>13.8</b>
2006-2009	7.0	25.5	12.5	13.5	16.0	12.3	<b>12.8</b>	0.5	17.9	5.6	6.6	9.0	5.4	<b>5.9</b>
2009-2012	1.8	3.4	2.4	-7.7	-0.1	-7.2	<b>-0.8</b>	-0.8	0.7	-0.3	-10.1	-2.7	-9.6	<b>-3.4</b>
2006-2012	3.2	9.7	5.2	0.2	5.0	0.1	<b>3.7</b>	-0.2	6.0	1.7	-3.2	1.5	-3.3	<b>0.2</b>
2003-2012	9.8	12.2	10.6	6.9	9.0	6.6	<b>9.4</b>	5.3	7.6	6.1	2.5	4.5	2.2	<b>4.9</b>

Source of basic data: DBM and CHED MIS

**Table 8. Tuition fees per unit in SUCs, undergraduate level, 2007-2012**

	2007	2008	2009	2010	2011	2012
<b>Mean</b>	122	121	126	133	133	140
<b>Mode</b>	100	100	100	100	100	100
<b>Max</b>	1,000	1,000	1,000	1,000	1,000	1,000
<b>Min</b>	12	12	12	0	0	0

Source: CHED MIS

**Table 9. Per student SUCs receipts, by source and region, 2012**

	<b>Tuition Fees</b>	<b>Other Income Collected from Students</b>	<b>Total Income from Students</b>	<b>Income from IGPs and Self-sustaining Activities</b>	<b>Grants and Donations</b>	<b>Others</b>	<b>Total</b>
<b>(in 2012 pesos)</b>							
National Capital Region	4,973	2,913	7,887	4,218	312	2,351	14,768
Region I - Ilocos	3,768	1,780	5,547	1,614	469	1,352	8,983
Cordillera Administrative Region	4,584	3,620	8,204	2,198	251	-	10,653
Region II - Cagayan Valley	5,650	1,459	7,110	704	163	10	7,986
Region III - Central Luzon	6,924	3,054	9,979	1,614	177	637	12,406
Region IV-A - CALABARZON	5,999	5,471	11,469	3,182	84	13	14,748
Region IV-B - MIMAROPA	5,195	3,691	8,885	1,212	444	1,915	12,457
Region V - Bicol	5,737	2,286	8,022	1,275	212	101	9,610
Region VI - Western Visayas	5,198	3,502	8,700	3,968	574	153	13,395
Region VII - Central Visayas	5,802	4,359	10,161	417	225	308	11,110
Region VIII - Eastern Visayas	5,189	1,857	7,046	2,634	1,283	1,644	12,606
Region IX - Zamboanga Peninsula	2,303	3,700	6,003	450	17	307	6,777
Region X - Northern Mindanao	6,272	2,668	8,940	3,313	926	882	14,061
Region XI - Davao Region	4,584	2,952	7,537	2,912	961	258	11,667
Region XII - Soccsksargen	8,936	1,253	10,189	1,762	-	0	11,951
Region XIII - CARAGA	5,701	2,880	8,581	1,608	157	2,560	12,906
ARMM	2,627	895	3,521	886	59	451	4,918
Philippines	5,330	2,963	8,293	2,327	369	896	11,885
<b>Per student internally generated income; national average = 100</b>							
National Capital Region	93.3	98.3	95.1	181.2	84.7	262.4	124.3
Region I - Ilocos	70.7	60.1	66.9	69.4	127.2	151.0	75.6
Cordillera Administrative Region	86.0	122.2	98.9	94.4	68.0	0.0	89.6
Region II - Cagayan Valley	106.0	49.2	85.7	30.2	44.1	1.1	67.2
Region III - Central Luzon	129.9	103.1	120.3	69.3	47.9	71.2	104.4
Region IV-A - CALABARZON	112.5	184.6	138.3	136.7	22.8	1.4	124.1
Region IV-B - MIMAROPA	97.5	124.6	107.1	52.1	120.5	213.8	104.8
Region V - Bicol	107.6	77.1	96.7	54.8	57.5	11.3	80.9
Region VI - Western Visayas	97.5	118.2	104.9	170.5	155.6	17.0	112.7
Region VII - Central Visayas	108.9	147.1	122.5	17.9	61.0	34.4	93.5
Region VIII - Eastern Visayas	97.3	62.7	85.0	113.2	347.9	183.5	106.1
Region IX - Zamboanga Peninsula	43.2	124.9	72.4	19.3	4.6	34.2	57.0
Region X - Northern Mindanao	117.7	90.0	107.8	142.4	251.0	98.4	118.3
Region XI - Davao Region	86.0	99.6	90.9	125.1	260.6	28.8	98.2
Region XII - Soccsksargen	167.7	42.3	122.9	75.7	0.0	0.0	100.6
Region XIII - CARAGA	107.0	97.2	103.5	69.1	42.5	285.8	108.6
ARMM	49.3	30.2	42.5	38.1	16.1	50.3	41.4
Philippines	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source of basic data: DBM and CHED MIS

***Income from Income Generating Projects (IGPs) and Other Self-Sustaining Activities***

The IGPs of SUCs are dependent on their land area, location, mandate, and thrusts. Because many SUCs have land grants, the IGPs of these SUCs typically involve agri-based production (such as piggery, poultry, fishery, seed production, fruit farms, rice farms, food processing, etc.). However, non-agricultural based IGPs (such as rental of facilities; operation of hostels, cafeterias, catering services, review centers, printing shops, internet shops, souvenir shops, wellness and spa; and provision of trainings and seminars) are also common. Some IGPs are also

used for academic purposes (e.g., conduct of research, provision of training/ seminars and laboratory services). In terms of having joint ventures with business and industry, only UP, among all the SUCs surveyed in this study, has engaged in such projects. These include the UP Ayala Technohub, UP Ayala Town Center, and licenses to use UP's logos.

Contrary to expectations that IGPs will make a significant contribution towards making SUCs more self-reliant financially, the contribution of IGPs in total SUCs receipts has remained modest and has, in fact, dwindled in 2003-2012. SUCs income from their income generating projects and other self-sustaining activities grew by 13% yearly on the average in nominal terms in 2006-2012, slower than the average growth in SUCs total income from students (17%) during the period (**Table 5**). Thus, the share of SUCs income IGPs and other self-sustaining activities in their total internally generated income contracted slightly from 24% in 2003 to 20% in 2012 (**Table 3**).

Moreover, the numbers presented above are even likely to overstate the true contribution of SUCs' IGPs to their total receipts. The COA in a 2012 Audit Report pointed out that this is so because, at times, the amounts reported as IGP income in the financial statements that were used in the conduct of this study refer to gross income rather than net income.

While the IGPs of some SUCs are not extensive and have no significant earnings, the IGPs are still considered to be very important sources of income by many of the SUCs which participated in the FGDs conducted as part of this study. One school emphasized that they receive a significant income of around PhP 17 million from IGPs alone, while another school earns about PhP 5.6 million. In addition to this, IGPs constitute 1.5%-20% of SUCs total internally-generated income per year.

As recently as 2012, the COA noted that the operation of IGPs in a number of SUCs suffered from weak financial management. Several practices hampers the monitoring and analysis of the results of operations of each individual IGPs which is important in evaluating whether said IGPs are actually making a positive net contribution to the SUCs coffers. First, not all SUCs maintain separate book of accounts for each of their IGPs. Second, SUCs vary in terms of how they record expenses associated with the operation of their IGPs. For instance, the salaries of teaching personnel who are involved in the IGP are charged in full against the SUCs' General Fund in some SUCs while the opposite is true in others.<sup>1</sup> At the same time, some MOOE which are meant to augment the SUCs' MOOE allocation from the GAA and which are not related to the operation of the IGP are charged as part of project cost in some SUCs. On the other hand, there are cases where some of the manpower and materials used in the operation of the IGP are funded out of the General Fund of the SUCs. Several 2012 COA Audit Reports for SUCs have found, after closer examination of the financial reports, that the IGPs of a number of SUCs have incurred net losses.

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<sup>1</sup> One of the SUCs which participated in the FGD conducted for this study, however, appear to do it just right. In this SUC, only 30% of the salary of the faculty member who is designated as project manager of the IGP was charged as part of the project's operating expense and the rest is charged against the SUCs' General Fund. In this SUC, the project manager's teaching load was reduced by 6 units to allow him to have time for the IGP.



Also, the COA in the course of its audit of SUCs operations have found that some SUCs have not formulated their Manual of Operations that will govern the operations, accounting, reporting and utilization of income of their IGPs, thereby increasing the risk of mismanagement and misappropriation of funds. Furthermore, the lack of internal control is evident in the IGPs of several SUCs.

Another issue related to IGPs relates to the staffing of the IGPs. In many SUCs, the teaching load of members of the faculty is reduced to enable them to be involved in the operation of the IGPs. This practice is problematic because it tends to contribute to shortage in faculty.

#### **4. USES OF FUNDS**

Total expenditures of all SUCs in the aggregate grew from PhP 20.6 billion in 2003 to PhP 39.7 billion in 2012 (**Table 10**). Like the growth in total SUCs receipts, the growth in total SUCs spending in 2003-2012 was not enough to keep pace with both inflation and the growth in SUCs enrollment. As a result, total SUCs expenditures per student in 2000 prices went down from PhP 24,300 in 2003 to PhP 19,300 in 2012 (**Table 11**).

Spending on personal services (PS) captured the lion's share (68%) of total SUCs spending during the period while maintenance and other operating expenditures (MOOE) accounted and capital outlays (CO) for 24% and 8%, respectively, of total SUCs spending. However, the share of PS in total SUCs expenditure declined from 76% in 2003 to 68% in 2012 while that of MOOE went down from 19% to 27%.

The contraction in the share of PS in total SUCs spending is associated with a decline in per student PS spending in real terms during the period. This is worrisome as it is indicative of the underfunding of PS among SUCs. However, while the number of plantilla teaching items in the majority of SUCs is found to fall short of the actual number of teaching load (i.e., actual teaching assignments carried out by permanent, part-time, and contractual faculty), a surplus of plantilla teaching items is evident in some SUCs (Nuqui, 2015).

##### **4.1. Uses of NG Subsidy**

PS spending captured the lion's share (83%) in total SUCs spending funded by the NG subsidy in 2003-2012. On the other hand, MOOE and CO account for 13% and 4% of total SUC spending out of NG subsidy (**Table 12**). **Table 12** also indicates that the allocation for MOOE out of NG subsidy was marginally more protected compared to that of PS and CO. To wit, SUC spending on MOOE from the NG subsidy grew at about the slightly faster pace as total SUC spending from the NG subsidy during the period while SUC spending on PS from the NG subsidy grew at a slightly slower rate as total SUC subsidy from the NG subsidy. In contrast, the SUC spending on CO funded from the NG subsidy is fairly erratic. While a reallocation of the NG subsidy from PS to CO is apparent between 2003 and 2010, the trend was reversed in 2011-2012.

**Table 10. Total SUCs spending, by economic category, 2003-2012**

	PS	MOOE	CO	Total	PS	MOOE	CO	Total
<b>Levels (in million pesos)</b>					<b>Distribution (%)</b>			
2003	15,603	3,939	1,013	20,555	75.9	19.2	4.9	100.0
2006	16,945	5,503	1,794	24,241	69.9	22.7	7.4	100.0
2007	17,772	6,175	1,928	25,875	68.7	23.9	7.5	100.0
2008	19,593	7,317	2,518	29,428	66.6	24.9	8.6	100.0
2009	21,599	7,879	3,825	33,303	64.9	23.7	11.5	100.0
2010	23,854	8,472	3,779	36,106	66.1	23.5	10.5	100.0
2011	25,015	10,027	2,341	37,383	66.9	26.8	6.3	100.0
2012	26,837	10,807	2,128	39,772	67.5	27.2	5.4	100.0
average					68.3	24.0	7.7	100.0
<b>Growth rate (%)</b>								
2003-2006	2.8	11.8	21.0	5.7				
2006-2009	8.4	12.7	28.7	11.2				
2009-2012	7.5	11.1	-17.8	6.1				
2006-2012	8.0	11.9	2.9	8.6	67.2	24.6	8.1	100.0
2003-2012	6.2	11.9	8.6	7.6	68.3	24.0	7.7	100.0

Source: DBM

**Table 11. SUCs spending per student, by economic category, in current and 2000 prices, 2003-2012**

	in current prices				in 2000 prices			
	PS	MOOE	CO	Total	PS	MOOE	CO	Total
<b>Levels (in pesos)</b>					<b>Levels (in pesos)</b>			
2003	21,190	5,349	1,376	27,914	18,441	4,655	1,197	24,293
2006	24,488	7,952	2,592	35,033	17,947	5,828	1,900	25,675
2007	24,213	8,413	2,628	35,254	17,239	5,990	1,871	25,100
2008	24,248	9,055	3,116	36,420	16,069	6,001	2,065	24,135
2009	24,430	8,912	4,326	37,668	15,791	5,760	2,796	24,347
2010	22,918	8,140	3,631	34,688	14,513	5,155	2,299	21,967
2011	23,917	9,587	2,238	35,741	14,560	5,836	1,362	21,759
2012	21,746	8,757	1,724	32,227	12,992	5,231	1,030	19,253
2003-2012					15,944	5,557	1,815	23,316
<b>Growth rate (%)</b>								
2003-2007	3.4	12.0	17.6	6.0	-1.7	6.5	11.8	0.8
2007-2009	0.4	2.9	28.3	3.4	-4.3	-1.9	22.2	-1.5
2009-2012	-3.8	-0.6	-26.4	-5.1	-6.3	-3.2	-28.3	-7.5
2006-2012	-1.3	1.1	-4.4	-0.9	-3.5	-1.2	-6.6	-3.1
2003-2012	0.3	5.6	2.5	1.6	-3.8	1.3	-1.7	-2.6

Source of basic data: DBM and CHED MIS

On the other hand, about three-quarters (or 74%) of total SUCs spending in 2003-2012 is funded from subsidy from the national government (**Table 13**). Consistent with the contraction in the share of NG subsidy in total SUCs receipts, the share of SUCs spending that is funded from NG subsidy went down from 83% in 2003 to 69% in 2012, increasing self-reliance on the part of all SUCs as a group in terms of funding during this period.

On the average, 90% of total PS spending of all SUCs in the aggregate was funded from the NG subsidy in 2003-2012 (**Table 13**). In contrast, SUCs tended to rely less on the NG subsidy in funding their MOOE and CO. In particular, only 34% of their CO and only 40% of their MOOE were funded from the NG subsidy during the period.

While the share of SUCs spending that is funded from the NG subsidy for all economic categories contracted between 2003 and 2012, with the decline in the share of NG subsidy in total SUCs spending most pronounced for CO (**Table 13**). In particular, the share of NG subsidy in total PS spending of all SUCs went down from 93% in 2003 to 88% in 2012. In comparison, the share of NG subsidy in total MOOE spending of SUCs contracted from 54% to 33% while its share in total CO spending decreased from 40% to 2%.

**Table 12. Uses of NG subsidy to SUCs, 2003-2012**

	PS	MOOE	CO	Total	PS	MOOE	CO	Total
<b>Levels (in million pesos)</b>					<b>Distribution (%)</b>			
2003	14,547	2,120	408	17,075	85.2	12.4	2.4	100.0
2006	15,447	2,440	730	18,617	83.0	13.1	3.9	100.0
2007	16,155	2,545	645	19,345	83.5	13.2	3.3	100.0
2008	17,430	2,748	963	21,141	82.4	13.0	4.6	100.0
2009	19,104	2,729	2,093	23,926	79.8	11.4	8.7	100.0
2010	21,308	3,499	1,902	26,710	79.8	13.1	7.1	100.0
2011	22,211	3,704	236	26,151	84.9	14.2	0.9	100.0
2012	23,627	3,587	32	27,247	86.7	13.2	0.1	100.0
2003-2012					82.8	12.6	4.6	100.0
<b>Growth rate (%)</b>								
2003-2006	2.0	4.8	21.4	2.9				
2006-2009	7.3	3.8	42.1	8.7				
2009-2012	7.3	9.5	-75.1	4.4				
2006-2009	7.3	6.6	-40.6	6.6				
2003-2012	5.5	6.0	-24.6	5.3				

Source: DBM

**Table 13. Proportion of SUCs spending funded from NG subsidy, 2003-2012**

	PS	MOOE	CO	TOTAL
2003	93.2	53.8	40.3	83.1
2006	91.2	44.3	40.7	76.8
2007	90.9	41.2	33.4	74.8
2008	89.0	38.0	38.2	72.0
2009	88.4	34.6	54.7	71.8
2010	89.3	41.3	50.3	74.0
2011	88.8	36.9	10.1	70.0
2012	88.0	33.2	1.5	68.5
2003-2012	89.9	40.4	33.7	73.9

Source: DBM

#### 4.2. Uses of Internally Generated Income of SUCs

MOOE received higher priority in the allocation of SUCs internally generated income compared to CO and PS, with PS receiving the lowest priority. In 2003-2012, more than half (54%) of total SUCs spending that is funded from their internally generated income went to MOOE. On the other hand, PS and CO accounted for 27% and 19%, respectively, of total SUCs spending out of their internally generated income (**Table 14**). Also, SUC spending on MOOE funded out of

their internally generated income grew at a slightly faster pace than total SUC spending from their internally generated income in 2003-2012 unlike SUC spending on PS and CO.

As indicated earlier, RA 8292 allows SUCs to retain any income that they generate from tuition fees and other charges, the operation of auxiliary services and income generating projects and to utilize said income for instruction, research, extension and other SUCs programs in accordance with a budget approved by their Board of Regents/ Trustees (BOR/T). In line with these powers, SUCs use their internally generated income (IGI) to augment the allocations for PS, MOOE, and CO that they receive from the GAA. According to the FGDs with SUCs officials, the allocation of their IGIs to instruction, research and extension (as well as PS, MOOE and CO) are based on the urgent needs of the colleges (i.e., priority needs, quality assurance needs, and development needs). SUCs vary with respect to process that they follow to allocate their IGI, but it usually involves the estimation of income collection for the budget year, the preparation of budget proposals from different departments/ colleges, the consolidation of the said budget proposals, the deliberation of the finance committee, and presentation of the budget to the Board of Regents/ Trustees (BOR/T) for approval.

The use of internally generated income is subject to certain limitations and restrictions. SUCs have to be mindful of COA rules and regulations (COA Circular No. 2000-002, Presidential Decree No. 1445 or the Government Auditing Code of Philippines, among others), DBM guidelines (particularly those related to compensation and benefits, creation of positions and GAA special provisions), CHED memoranda and circulars (most importantly, CMO No. 20-s2011), and other restrictions imposed by the SUCs' BOR/T.

**Table 14. Use of internally generated income of SUCs, 2003-2012**

	PS	MOOE	CO	Total	PS	MOOE	CO	Total
<b>Levels (in million pesos)</b>					<b>Distribution (%)</b>			
2003	1,057	1,819	605	3,481	30.4	52.3	17.4	100.0
2006	1,498	3,062	1,063	5,624	26.6	54.4	18.9	100.0
2007	1,617	3,630	1,284	6,531	24.8	55.6	19.7	100.0
2008	2,163	4,533	1,555	8,252	26.2	54.9	18.8	100.0
2009	2,496	5,150	1,732	9,377	26.6	54.9	18.5	100.0
2010	2,546	4,973	1,877	9,396	27.1	52.9	20.0	100.0
2011	2,805	6,323	2,104	11,232	25.0	56.3	18.7	100.0
2012	3,210	7,220	2,096	12,526	25.6	57.6	16.7	100.0
2003-2012					26.9	54.4	18.7	100.0
<b>Growth rate (%)</b>								
2003-2006	12.3	19.0	20.7	17.3				
2006-2009	18.6	18.9	17.7	18.6				
2009-2012	8.7	11.9	6.6	10.1				
2006-2012	13.5	15.4	12.0	14.3				
2003-2012	13.1	16.6	14.8	15.3				

Source: DBM

### *Use of IGI to Augment GAA Allocation for PS*

Despite the presence of unfilled posts in their plantilla, many SUCs report a shortage of faculty on the ground. This is so because they cannot easily find new qualified employees that can fill some of the vacant positions in their plantilla, especially those which carry a higher salary grade which have been vacated by retirees. Given the increase in enrollment, schools resort to “scrap

and build” (i.e., abolish high posts, then create lower posts). Some schools also adopt the “scrap and build” scheme to meet the faculty requirements when they offer new programs. The approval process of scrapping and building faculty positions, however, takes time. Some SUCs are also wary of the scrap and build scheme because it may lead to the loss of higher positions in the plantilla. Thus, many SUCs hire contractual or part-time faculty to meet their need for additional teaching staff using the salary allocations that they would otherwise use to fill up unfilled positions.

Nonetheless, the majority of the SUCs officials who attended the FGDs conducted for this study point out that SUCs have had to use the internally generated income that are lodged in their STFs/ RFs for the salaries of part-time, casual, and contractual faculty and lecturers because the PS budget from GAA is not enough to cover all their PS requirements. Payment of overload pay of regular faculty, salaries of part-time and/ or contractual faculty and job orders (JO) are, thus, typically charged to the SUCs’ STFs. Among the SUCs which participated in the FGDs conducted for this study, the share of PS payments in total IGI range from a low of 10% to a high of 84%.

However, some COA auditors frown on this practice, pointing out that COA Circular No. 2000-002 provides that the STF may not be used for the payment of salaries and creation of new positions. For the same reason, some COA auditors also have an unfavorable view of the SUCs’ use of their IGI to pay the salary differentials related to the implementation of National Budget Circular (NBC) 461. The COA’s uneven treatment of SUCs with regards to their use of the IGI for the payment of salaries and creation of new positions may be attributed to the inconsistency between the provisions of COA Circular No. 2000-002 and the special provision of the General Appropriations Act for 2012 (as well as those for more recent years) which clearly states that SUCs may use their internally generated income for the creation of additional positions. It may also explain why the allocation for PS from the IGI is not larger despite some evidence of PS underfunding.

The non-uniform treatment of SUCs’ use of their IGI to pay for PRAISE incentives, Collective Negotiation Agreement (CNA) benefits and other allowances by COA auditors has also been observed. SUC officials argue that COA Circular 2000-002 provides that SUCs may use their internally generated income for the payment of allowances to teachers. On the other hand, the concerned COA auditors point out that, as per the Civil Service Commission, PRAISE incentives should be sourced from the SUCs’ savings while the CNA benefits are meant to be paid out of the SUCs GAA appropriations.

In contrast, there are many other cases where COA auditors fault the SUCs’ use of the IGI to pay for the personnel allowances/ benefits not because the IGI is an inappropriate source of payment of said benefits but because the said personnel allowances/ benefits were deemed to have no legal basis.

### *Use of IGI for MOOE*

Some MOOE are also charged under STF, particularly repair and maintenance of buildings and other infrastructure, supplies and materials, communication expenses, training expenses, faculty

development, utility expenses, advertising, janitorial expenses, security services, professional services, representation expenses, and travel expenses. SUCs from far-flung provinces reported that they use the STF especially for travel expenses since most seminars and meetings are held in Manila. Job orders are also charged under MOOE if the PS budget can no longer accommodate such expenses. For the SUCs which participated in the FGDs conducted for this study, the share of MOOE in their total IGI range from a low of 13% to a high of 73%.

### *Use of IGI for CO*

Since the allocation for CO from the national government tends to be low, the STF of SUCs usually allot about 10%-30% of STF to CO. The expenses go to the construction, rehabilitation, and conversion of buildings, classrooms, dormitories, and other facilities. Part of the CO also goes to land development and the purchase of office and laboratory equipment, furniture, books, school vehicles. On the other hand, one school availed a loan of PhP 132 million from the Development Bank of the Philippines (DBP) to augment CO and put up 3 buildings.

### *Use of Income from IGPs*

Income from IGPs is typically used to augment MOOE and CO allocations from the GAA. However, some SUCs use some of their IGP income for the payment of profit sharing incentives to IGP management and personnel. In one SUC, IGP profits are divided as follows: 55% for the payment of profit sharing incentive to SUC officials and employees, 20% for school share and 25% for capital build-up. In this particular case, the COA auditor opined that the IGP does appear to serve the purpose for which it was created (i.e., to augment NG funding for instruction, research and extension).

### *Use of fiduciary fees*

Fiduciary fees are non-tuition fees that are used exclusively for specific and pre-defined purposes. They cannot be readily used because each fee has its own allocated expense (i.e. if the income comes from athletic fees, then it's allocated only for sports). The SUCs, however, hope that the DBM would give them more freedom in allotting the fiduciary fees so that they can also be used for other purposes. This will enable SUCs to stretch the utilization of their income.

## **4.3. SUC Spending by Function**

SUCs in the aggregate allocated the bulk (62% in 2009 and 74% in 2012) of their spending on instruction/ education (**Table 15**). On the other hand, the share of general administrative services (GAS) and that of auxiliary services (including IGPs) in total SUC spending appear to be on the high side at 30% and 6%, respectively, in 2009. These figures are even higher than the share of research and extension (1.3% and 1.0%, respectively). This is surprising considering that research and extension are two of the three core mandates of SUCs. On a positive note, the share of GAS and auxiliary services in total SUCs spending have gone down to 18% and 3%, respectively, in 2012. Despite said reallocation, the spending shares of GAS and auxiliary services still appears to be disproportionately large compared to the share of research and extension.

**Table 15. Distribution of SUC spending, by function, 2009 and 2012**

	<b>2012</b>	<b>2009</b>
<b>GAS</b>	18.3	30.2
<b>Auxiliary</b>	3.4	6.0
<b>Education</b>	74.0	61.5
<b>Research</b>	2.5	1.3
<b>Extension</b>	1.8	1.0
<b>Total</b>	100.0	100.0

Source of basic data: DBM and CHED MIS

## **5. FISCAL SURPLUS OF SUCs**

In recent years, concerns have been raised that the SUCs sector has been generating and accumulating fiscal surpluses instead of fully utilizing the NG subsidies they receive from the GAA and their internally generated income to hire enough faculty, increase MOOE and/ or upgrade facilities (**Box 1**). This narrative appears to have some weight if one simply looks at the data of all SUC as a group. Based on the Statement of Receipts and Expenditures that SUCs submit to the DBM, the SUCs sector (i.e., all SUCs as a group) posted fiscal surpluses in 2006-2012 that ranged from a low of PhP 1.2 billion in 2006 to a high of PhP 4.4 billion in 2011 (**Table 16**). Fifty-eight percent of the cumulative fiscal surpluses during the period are attributable to fiscal surpluses from SUCs' internally generated income while the remaining 42% of the aggregate fiscal surplus is due to "underspending" of the NG subsidy. This development may be explained by the lower utilization rate for SUCs' internally generated income (86%) compared to that for the NG subsidy (95%).

If one looks, however, at the fiscal surplus of individual SUCs, the fiscal surplus numbers do not appear to be quite as significant. The fiscal surplus of the average SUC was PhP 26 million in 2009 and PhP 19 million in 2012 (**Table 17**). **Table 17** also shows that the fiscal surplus of SUCs appear to be positively associated with the size of the SUC (as measured by number of students). For instance, in 2012 the average small-sized SUC had a fiscal surplus of PhP 5 million, the average medium-sized SUC PhP 10 million and the average large-sized SUC PhP 41 million. On the other hand, **Table 18** also shows that a greater percentage of the relatively larger SUCs tend to pose fiscal surpluses compared to the smaller sized SUCs.

**Table 16. Fiscal surplus of all SUCs as a group, by source of funding, 2009-2012**

	RECEIPTS			EXPENDITURES			FISCAL SURPLUS			UTILIZATION RATE (EXP AS % OF RECEIPTS)			DISTRIBUTION OF FISCAL SURPLUS (%)			FISCAL SURPLUS AS % OF RECEIPTS		
	NG subsidy	Internally generated income	Total	NG subsidy	Internally generated expenditures	Total	NG subsidy	Internally generated expenditures	Total	NG subsidy	Internally generated expenditures	Total	NG subsidy	Internally generated income	Total	NG subsidy	Internally generated income	Total
<b>Levels (in million pesos)</b>												<b>Distribution (%)</b>						
2006	18,857	6,625	25,482	18,617	5,624	24,241	240	1,001	1,241	98.7	84.9	95.1	19.3	80.7	100.0	1.3	15.1	4.9
2007	20,372	7,995	28,367	19,345	6,531	25,875	1,027	1,464	2,492	95.0	81.7	91.2	41.2	58.7	100.0	5.0	18.3	8.8
2008	22,769	9,650	32,419	21,141	8,252	29,428	1,628	1,398	2,991	92.8	85.5	90.8	54.4	46.7	100.0	7.2	14.5	9.2
2009	25,363	10,771	36,135	23,926	9,377	33,303	1,437	1,394	2,832	94.3	87.1	92.2	50.7	49.2	100.0	5.7	12.9	7.8
2010	26,710	11,124	37,834	26,710	9,396	36,106	-	1,729	1,729	100.0	84.5	95.4	0.0	100.0	100.0	0.0	15.5	4.6
2011	29,067	12,740	41,807	26,151	11,232	37,383	2,915	1,508	4,424	90.0	88.2	89.4	65.9	34.1	100.0	10.0	11.8	10.6
2012	27,845	14,668	42,513	27,247	12,526	39,772	599	2,142	2,741	97.9	85.4	93.6	21.8	78.2	100.0	2.1	14.6	6.4
2006-2012	170,983	73,574	244,557	163,137	62,937	226,108	7,846	10,636	18,449	95.4	85.5	92.5	42.5	57.7	100.0	4.6	14.5	7.5

Source of basic data: DBM



**Table 17. Fiscal surplus of average SUC, by size and source of funding, 2009 and 2012**

	2012			2009		
	Total receipts	Internally generated income	NG subsidy	Total receipts	Internally generated income	NG subsidy
<b>Levels (in million pesos)</b>						
Small	5	2	2	7	3	4
Medium	10	8	2	10	8	1
Large	41	33	9	61	27	34
All	19	15	4	26	13	13
<b>Memo item:</b>						
Aggregate fiscal surplus for all SUCs	2,741	2,142	599	2832	1394	1437

Note: small SUCs are those with enrollment of 4,500 or less; medium-size SUCs are those with enrollment equal to or greater than 4,500 but less than 8,000 and large SUCs are those with enrollment greater than or equal to 8,000

**Table 18. Number of SUCs with fiscal surplus, by size of SUC, 2012**

	No. with fiscal surplus	Total no. of SUCs	%
Small	24	28	85.7
Medium	23	28	82.1
Large	53	56	94.6
All	100	112	89.3

Source of basic data: DBM

**Box 1. COA: “Despite P168-M trust fund, state university fails to modernize”**

In 2014, COA discovered that the Technological University of the Philippines (TUP) in Manila did not use some Php 168 million or 57 percent of the budget for the STF. According to a COA report, Php 168,782,900.73 of the total Php 297,798,620 approved 2013 budget for STF was unused. Thus, the improvement of school facilities and equipment was not realized. In addition to this, only Php 133,056,093.36 was disbursed during the year thereby resulting in the continuous accumulation of the STF in the banks which amounted to Php 545,466,392.14 as of December 31, 2013. Of this amount, a total of Php 230,722,652.44 was invested in high-yield savings account (HYSA) or time deposit. TUP argued that they aim for the fund to earn interest instead of having it left idle in the current account. This transaction, however, is against the CHED Modernization Act. Given that TUP is a service-oriented and not an investing/corporate institution, it should utilize the STF for instruction, research, extension, and for other programs and projects of the university. TUP has agreed to prepare a more realistic and justifiable budget plan that can ensure the improvement of infrastructure and school equipment (Tolentino, 2014).

Source: Tolentino, R. 2014. *COA: Despite P168-M trust fund, state university fails to modernize*. The Manila Times [online]. <http://www.manilatimes.net/coa-despite-p168-m-trust-fundstate-university-fails-modernize/131978/> [Accessed 26 January 2015].

At the same time, the fiscal surplus numbers of SUCs do not look as alarming if one compares the SUCs' fiscal surplus with their total receipts. On the average, the fiscal surplus of all SUCs in the aggregate is equal to 8% of their total receipts (or equivalent to a month's worth of receipts) in 2006-2012 (**Table 16**). The comparative figures for the fiscal surplus from the NG subsidy is 4% (or the equivalent of half-a-month's worth of receipts) while that from IGI is 14% (or the equivalent of two month's worth of receipts).

The reasons put forward by SUCs officials who attended the FGDs conducted for this study to explain why SUCs incur fiscal surpluses (particularly the first two points below) appears to be consistent with the fiscal surplus-to-total-receipts ratios that are observed above.

- Non-synchronization of the budget year with academic or school year. Tuition fees for the second semester of the school year are collected in October-November of the current budget year but are actually spent on, say salaries of faculty, from November of the current budget year to March/ April of the next budget year. Necessarily, part of the collection from tuition fees will not be spent in the current budget year and will thus form part of the fiscal surplus for the current budget year. This story holds as well for funding (say from the GAA) which they receive late in the budget year.
- Timing issues related to budget preparation, spending authorization and fiscal reporting. Spending authorizations are based on the certification of availability of funds by the SUC Accountant. Because the financial reports are typically made on a quarterly basis, the net income from IGPs that is realized as of the end of the fourth quarter of the current budget year (assuming that the BOR/T approves spending authorization on a quarterly basis) will only be available for appropriation in the first quarter of the next budget year. Again, said amount will form part of the fiscal surplus of the current budget year.
- Many SUCs report that they intentionally do not program to spend all of their estimated income in the current budget year. Instead, they accumulate the fiscal surpluses they generate during several budget years so as to have sufficient funds for lumpy capital investments.
- Some SUCs admit that, at times, they are not able to implement all their programmed projects (particularly capital investments) on time, thereby resulting in realized fiscal surpluses. Delays have been attributed by some SUC officials to (i) delays in BOR/T's approval of spending authorizations and (ii) the tedious processes associated with the requirements of the procurement law.

#### How do SUCs manage fiscal deficits?

The strategies used by SUCs to manage their fiscal deficits include:

- increase in tuition and other fees;
- implement cost-cutting measures;
- discontinue IGPs that are not viable and improve the management of IGPs which are incurring losses but which are deemed to be inherently viable;

- solicit grants and donations; and
- conduct fund-raising activities.

The SUCs clarified that prioritization of activities and proper monitoring and scheduling of expenditures are very important to avoid losses.

## **6. CONCLUSION AND RECOMMENDATIONS**

### **6.1. Summary of Major Findings**

#### ***Sources of Funds***

Total SUCs receipts grew by 8% yearly on the average from PhP 21.8 billion in 2003 to PhP 42.5 billion in 2012. However, the growth in total SUCs receipts was not enough to compensate for inflation and the growth in number of students combined. Thus, total SUCs receipts per student in 2000 prices in 2012 (PhP 20,600) is lower than its 2003 level (PhP 25,800) and its peak level in 2007 (PhP 27,500).

SUCs in the aggregate have made some progress towards greater fiscal self-reliance in 2003-2012. While the subsidy from the national government continues to account for the bulk of total receipts of SUCs, a shift in the composition of SUCs' receipts in favor of internally generated income is evident during the period as SUCs' receipts from their internally generated income grew more than thrice as fast as NG subsidy during the period. Thus, the share of internally generated income expanded from 18% in 2003 to 35% in 2012.

However, the progress that SUCs have achieved in the earlier years of the period under study in terms of greater self-reliance has faltered. The nominal growth in SUCs internally generated income decelerated after the initial surge in 2003-2006.

Income from students accounts for the major part (67%) of SUCs total internally generated income in 2003-2012. Moreover, the share of income from students in total SUCs internally generated income has increased from 63% in 2003 to 70% in 2012. This was achieved largely by raising other school charges rather than increasing tuition fees *per se* as SUCs have tried to deflect the students' protests that are associated with tuition fee increases.

Notwithstanding the increasing share of total SUCs income from students in 2003-2012, their potential to further increase the contribution of tuition fees and other school charges to total SUCs income remains substantial. Per student receipts from tuition fees and other school charges in SUCs in 2012 are not only significantly lower than those charged by private higher education institutions but also lower than peak level charged by SUCs themselves in 2007. Also, despite references to the implementation of cost recovery in the setting of tuition fees in SUCs, SUCs' income from students account for only 26% of total SUCs expenditures at best in 2003-2012.

On the other hand, contrary to expectations that IGPs will make a significant contribution towards making SUCs more self-reliant financially, the contribution of IGPs in total SUCs receipts has remained modest and has, in fact, dwindled in 2003-2012. In particular, SUCs income from their income generating projects and other self-sustaining activities contracted from 24% to 20% during the period. Moreover, several practices hampers the monitoring and analysis of the results of operations of each individual IGPs which is important in evaluating whether said IGPs are actually making a net contribution to the SUCs coffers.

### *Uses of Funds*

Like the growth in total SUCs receipts, the growth in total SUCs spending in 2003-2012 was not enough to keep pace with both inflation and the growth in SUCs enrollment. As a result, total SUCs expenditures per student in 2000 prices went down from PhP 24,300 in 2003 to PhP 19,300 in 2012.

Spending on personal services (PS) captured the lion's share (68%) in total SUCs spending during the period. On the other hand, MOOE and CO accounted for 24% and 8%, respectively. However, the share of PS in total SUCs expenditure declined from 76% in 2003 to 68% in 2012 while that of MOOE went up from 19% to 27%. This contraction in the relative share of PS in total SUC spending is associated with a decline in per student PS spending in real terms and is indicative of the underfunding of PS among SUCs.

On the average, 90% of total PS spending of all SUCs in the aggregate was funded from the NG subsidy in 2003-2012 compared to 40% for MOOE and 34% for CO. The share of SUCs spending that is funded from NG subsidy contracted for all economic categories between 2003 and 2012. To wit, the share of NG subsidy in total PS spending of all SUCs went down from 93% in 2003 to 88% in 2012 while that of MOOE shrank from 54% to 33% and that of CO spending decreased from 40% to 2%.

MOOE received higher priority in the allocation of SUCs internally generated income compared to CO and PS, with PS receiving the lowest priority. In 2003-2012, more than half (54%) of total SUCs spending that is funded from their internally generated income went to MOOE. In contrast, PS and CO accounted for 27% and 19%, respectively, of total SUCs spending out of their internally generated income.

The majority of the SUCs officials who attended the FGDs conducted for this study point out that SUCs use their internally generated income that are lodged in their STFs/ RFs for the salaries of part-time and contractual faculty and lecturers because the PS budget from GAA is not enough to cover all their PS requirements. However, the use of the SUCs' internally generated income for PS appears to be stymied by inconsistency between the provisions of COA Circular No. 2000-002 and that of the GAA for various years with regards to the use of SUCs IGI for PS, thereby resulting in some unevenness in the way COA auditors treat SUCs in this respect. This may also explain why the allocation for PS from the IGI is not larger despite some evidence of PS underfunding.

The non-uniform treatment of SUCs' use of their IGI to pay for PRAISE incentives, CNA benefits and other allowances by COA auditors has also been observed. SUC officials argue that COA Circular 2000-002 provides that SUCs may use their internally generated income for the payment of allowances to teaching personnel. On the other hand, the concerned COA auditors point out that, as per the Civil Service Commission, PRAISE incentives should be sourced from the SUCs' savings while the CNA benefits are meant to be paid out of the SUCs GAA appropriations.

Function-wise, while the majority (74%) of SUCs' total spending is allocated to instruction/ education in 2012 the shares of GAS (18%) and auxiliary services (3%) in total SUC spending appear to be disproportionately large relative to research and extension (which each received 2% of the total SUC spending) considering that research and extension are two of the three core mandates of SUCs.

Concerns have been raised that the SUCs sector has been generating and accumulating fiscal surpluses instead of fully utilizing the NG subsidies they receive from the GAA and their internally generated income to hire enough faculty, increase MOOE and/ or upgrade facilities so as to deliver on its core mandates. While the fiscal surplus of all SUCs in the aggregate appears to be large, the fiscal surplus numbers do not appear to be quite as significant if one looks at the fiscal surplus of individual SUCs. For instance, the fiscal surplus of the average SUC was PhP 26 million in 2009 and PhP 19 million in 2012. The fiscal surplus numbers of SUCs do not look as alarming if one compares the SUCs' fiscal surplus with their total receipts. On the average, the fiscal surplus of all SUCs in the aggregate is equal to 7% of their total receipts (or equivalent to a month's worth of receipts) in 2006-2012.

## **6.2. Recommendations**

The following recommendations flow directly from the major findings of this study. These recommendations are focused on helping SUCs improve their ability to generate more resources for public higher education and also to assist them in allocating the funds they receive from various sources in an effective manner.

1. To help SUCs achieve some balance between the need to improve resource generation through some measure of cost recovery in the setting of tuition and other school fees and the need to ensure the poor's access to higher education (two of the objectives of the Higher Education Reform Agenda), two alternative courses of action are available:
  - Adoption of a socialized tuition fee scheme (wherein the fees to be paid by the student depend on the family's income with lower income families being entitled to lower tuition fees than their better-off counterparts) by SUCs
  - Allocation of increased funding to student financial assistance programs by the national government coupled with improved targeting of the financial assistance to poor students. In line with this, the government has launched two financial assistance programs for poor but deserving students, namely, the Expanded Students' Grants-in-Aid Program for Poverty Alleviation (ESGP-PA) and the Tulong-Dunong.

2. Enjoin SUCs which offer programs which are not part of their core mandates to do so on a self-sustaining basis by charging tuition fees that approximate the amount need for full cost recovery. This will help improve cost recovery in SUCs while rationalizing SUC program offerings.
3. As proposed in the Roadmap Higher Education Reform, encourage and assist SUCs to prepare and implement business development plans that would make use of their land and other assets and to engage in income generating projects (in partnership with the private sector when feasible).
4. Strengthen the financial management of existing IGPs to ensure that SUCs' IGPs are making a positive net contribution to the coffers of SUCs:
  - Strictly enforce the requirement that SUCs maintain separate books of account for each individual IGP they operate so as to make it easier to monitor and analyze the results of their operations
  - DBM and CHED should improve the guidelines in the formulation of the Manual of Operations that will govern the operations, accounting, reporting and utilization of IGPs so as to reduce the risk of mis-management:
    - Treat IGPs in the same manner that one would treat economic enterprises in terms of the recording and reporting of their financial operations. Only direct and indirect costs (salaries, materials, supplies and equipment) incurred in the actual operations of the IGP should be charged as project cost against gross revenues of the IGP to arrive at the IGP's net income.
    - Rationalize the amounts that SUCs may set aside for profit sharing incentives that SUCs may pay out of the net income of their IGPs to IGP management and personnel
    - Strengthen internal control in IGPs
5. Focus the use of the internally generated income of SUCs on their core mandates:
  - Revisit the allocation for production in CMO 20-s2011
  - Rationalize the allowances and other benefits that may be charged against the internally generated income of SUCs
6. Resolve the inconsistency between the provisions of COA Circular No. 2000-002 and those of the General Appropriations Act with respect to the use of SUCs' internally generated income for the creation of new positions and the payment of salaries and allowances of regular/ permanent, contractual, and part-time faculty. This issue is partly addressed by the recent DBM policy, implemented starting January 1, 2015 that provides that the salary differentials of faculty whose positions are upgraded pursuant to NBC 461 are to be charged against the Miscellaneous Personnel Benefits Fund (MPBF) of the General Appropriations Act (GAA), thus, freeing the income of SUCs for other purposes. However, to date, the DBM still has to issue guidelines regarding the creation of new positions that can be charged against SUCs' income.

7. Improve expenditure programming and procurement planning so as to minimize delays in project implementation to ensure that the benefits ensue to the higher education sector from the larger internally generated income of SUCs are realized sooner rather than later.
8. Explore greater flexibility in the use of some of the fiduciary fees (e.g., library fees, athletic fees) that SUCs collect.
9. Offer the Grades 11 and 12 in SUCs, at least in the interim. In this way, SUCs will be able to recover (partially, if not fully) the income they are likely to lose from the operation of their higher education programs when the Senior High Program starts in school year 2016 from the voucher payments that DepEd will make in favor of senior high school students who will opt to enroll in non-DepED schools.

It should be emphasized that the present study's primary objective is to review and assess sources and uses of funds by SUCS so as to provide some guidance on how to increase SUCs' internally generated income and how to ensure that the utilization of the same are focused on their instruction, research and extension activities in a manner that is complementary with the regular subsidy provided to SUCs by the national government (NG). The study, however, does not cover an issue is just as important, if not more so: the accuracy and integrity of the SUCs' Financial Accountability Reports (as submitted to DBM). The CHED has previously created a Technical Working Group to improve the financial reporting of SUCs' internally generated income which re-iterated the need for the full disclosure of the collection and utilization of the same and which explored the use of sanctions and incentives to enforce this.

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## **APPENDICES**

**Appendix A. List of SUCs invited for FGD**

<b>1. Manila</b>	<b>2. La Union</b>	<b>3. Davao</b>	<b>4. Bacolod</b>
Laguna State Polytechnic University	Isabela State University	Mindanao State University - Iligan Institute of Technology	Naval State University
Bicol University	Ramon Magsaysay Technological University	Mindanao State University - Marawi	University of the Philippines Visayas
Camarines Sur Polytechnic College	Benguet State University	University of Southeastern Philippines	Aklan State University
Partido State University	Bulacan Agricultural State College	University of Southern Mindanao	Western Visayas College of Science and Technology
University of the Philippines - Diliman	Don Mariano Marcos State University	Davao del Norte State College	West Visayas State University
	University of Northern Philippines	Zamboanga City State Polytechnic College	Cebu Normal University
	Bulacan State University		
	Cagayan State University		

## Appendix B. Questionnaire

### STUDY ON THE UTILIZATION OF INCOMES GENERATED BY STATE UNIVERSITIES AND COLLEGES

- 1) What are the sources of your internally-generated income? Please give contribution (in %) of various sources of internally generated income.
  - a. Tuition \_\_\_\_\_
  - b. Miscellaneous fees \_\_\_\_\_
  - c. Income generating projects \_\_\_\_\_
  - d. Others (please specify) \_\_\_\_\_
- 2) Does your school receive grants and donations? From where?
- 3) What are your school's specific income-generating projects?
- 4) Does your university have joint ventures with business and industry?  
What are those ventures?
- 5) Are there specific restrictions (formal or informal) that your SUC follow in using your internally generated income? Please give examples.
- 6) What proportion of your internally generated income goes to personal services?;  
MOOE?; capital outlay?
- 7) Do you use income from tuition for personal services? Please specify specific utilization.
- 8) Do you use income from tuition for MOOE? Please specify specific utilization.
- 9) Do you use income from tuition for capital outlays? Please specify specific utilization.
- 10) Do you use income from income generating projects for personal services? Please specify specific utilization.
- 11) Do you use income from income generating projects for MOOE? Please specify specific utilization.

12) Do you use income from income generating projects for capital outlays?

Please specify specific utilization.

13) Do you use income from (please specify another important source) for personal services?

Please specify specific utilization.

14) Do you use income from (please specify another important source) for MOOE? Please specify specific utilization.

15) Do you use income from (please specify another important source) for capital outlays?

Please specify specific utilization.

16) What is the basis for deciding how much should go to PS, MOOE, CO?

17) Please describe process of allocating use of your internally generated income (in terms of how it is budgeted, who decides, who approves, etc).

18) The Statement of Income and Expenditures (SIE) of some SUCs exhibit losses. How are SUCs managing these losses in income?

19) Some SUCs have been observed to have large surpluses, i.e., unspent internally generated income. What are the possible reasons this occurs?

20) (Additional question) The Special Trust Fund (STF) is composed of income from student-related fees. How do you utilize your income in the STF? What are the specific issues on the collection and allocation of this income?

21) (Additional question) The Revolving Fund (RF) is composed of income from IGPs. How do you utilize your income in the RF? What are the specific issues on the collection and allocation of this income?

## Appendix C. Sample of SIE for STF and RF

BENGUET STATE UNIVERSITY			Detailed
Statement of Income and Expenses			Special Trust Fund
For the period ending December 31, 2013			164-Main
<b>INCOME</b>			
General Income Accounts			
Service Income			
Affiliation Fees	5,047,622.11		
Athletic and Cultural Fees	4,282,656.00		
Clearance and Certification Fees	627,875.00		
Comprehensive Examination Fees	1,181,066.01		
Diploma and Graduation Fees	809,800.00		
Library Fees	4,052,853.00		
Medical, Dental, and Laboratory Fees	5,099,315.00		
Transcript of Records Fees	586,235.00		
Other Services Income	<u>18,114,387.04</u>	39,801,809.16	
Business Income			
Income from Dormitory Operations	1,291,200.00		
Landing and Parking Fees	500,213.00		
Rent Income	16,428,236.17		
Tuition Fees	44,067,133.00		
Other Business Income	<u>545,355.00</u>	62,832,137.17	
Other Income			
Interest Income	199,602.54		
Miscellaneous Income	3,903,008.94		
Other Fines and Penalties	<u>38,711.09</u>	<u>4,141,322.57</u>	106,775,268.90
<b>GROSS INCOME</b>			<b>106,775,268.90</b>
<b>Less: Expenses</b>			
Personal Services			
Salaries and Wages			
Salaries and Wages - Part-time	1,164,440.00		
Salaries and Wages - Contractual	<u>12,257,805.40</u>	13,422,245.40	
Other Compensation			
Representation Allowance (RA)	307,220.67		
Transportation Allowance (TA)	179,147.01		
Clothing / Uniform Allowance	75,000.00		
Honoraria	10,733,612.49		
Overtime and Night Pay	199,309.44		
Cash Gift	72,500.00		
Year end Bonus	<u>78,960.09</u>	11,645,749.70	
Personnel Benefits Contributions			
PAG-IBIG Contributions	5,800.00		
PHILHEALTH Contributions	<u>6,232.50</u>	12,032.50	
Other Personnel Benefits			
Other Personnel Benefits		210,739.60	25,290,767.20

Maintenance and Other Operating Expenses		
Travelling Expenses		
Travelling Expenses - Local	3,786,499.44	
Travelling Expenses - Foreign	<u>1,089,346.05</u>	4,875,845.49
Training and Scholarship Expenses		
Training Expenses	1,229,884.04	
Scholarship Expenses	<u>361,278.23</u>	1,591,162.27
Supplies and Material Expenses		
Office Supplies Expenses	6,535,259.39	
Accountable Forms Expenses	130,586.00	
Drugs and Medicines Expenses	231,674.22	
Medical, Dental and Laboratory Supplies Expenses	556,741.17	
Gasoline, Oil and Lubricants Expenses	580,618.36	
Agricultural Supplies Expenses	300,680.99	
Textbooks and Instructional Materials Expenses	1,182,536.38	
Other Supplies Expenses	<u>4,783,427.86</u>	14,301,524.37
Utility Expenses		
Water Expenses	15,307.78	
Electricity Expenses	<u>2,408,234.33</u>	2,423,542.11
Communication Expenses		
Telephone Expenses - Landline	258,574.19	
Telephone Expenses - Mobile	69,799.78	
Internet Expenses	1,670,412.34	
Cable, Satellite, Telegraph, and Radio Expenses	<u>69,400.00</u>	2,068,186.31
Membership dues and Contributions to Organizations		
Membership dues and Contributions to Organizations		241,633.79
Advertising Expenses		
Advertising Expenses		55,527.00
Printing and Binding Expenses		
Printing and Binding Expenses		1,102,293.51
Rent Expenses		
Rent Expenses		48,000.00
Professional Services		
Auditing Services	32,828.46	
General Services	476,994.23	
Security Services	<u>2,406,700.00</u>	2,916,522.69
Repair and Maintenance		
Land and Improvements		
Repairs and Maintenance-Land Improvements	40,000.00	
Buildings		
Repairs and Maintenance-Office Buildings	8,332.25	
Repairs and Maintenance-School Buildings	1,130,915.74	
Repairs and Maintenance-Other Structures	1,011,179.05	
		2,150,427.04

Office Equipment, Furniture and Fixtures			
Repairs and Maintenance-Office			
Equipment	236,951.04		
Repairs and Maintenance-IT Equipment			
and Software	<u>17,623.32</u>	254,574.36	
Machineries and Equipment			
Repairs and Maintenance-Medical, Dental and Laboratory			
Equipment		8,500.00	
Transportation Equipment			
Repairs and Maintenance-Motor Vehicles		250,588.33	
Other Property, Plant and Equipment			
Repairs and Maintenance-Other Property,			
Plant and Equipment		<u>15,050.00</u>	2,719,139.73
Taxes, Insurance Premiums and Other Fees			
Insurance Expenses			468,108.57
Non-Cash Expenses			
Depreciation			
Land Improvements			
Depreciation - Land Improvements	1,102,157.82		
Buildings			
Depreciation - Office Buildings	487,854.12		
Depreciation - School Buildings	662,406.63		
Depreciation - Other Structures	<u>1,031,584.22</u>	2,181,844.97	
Office Equipment - Furniture and Fixtures			
Depreciation - Office Equipment	1,066,357.72		
Depreciation - Furniture and Fixtures	706,262.80		
Depreciation - IT Equipment	3,787,743.20		
Depreciation - Library Books	<u>190,806.00</u>	5,751,169.72	
Machineries and Equipment			
Depreciation - Agricultural, Fishery and			
Forestry Equipment	56,665.40		
Depreciation - Communication Equipment	19,080.46		
Depreciation - Construction and Heavy			
Equipment	23,409.06		
Depreciation - Medical, Dental and			
Laboratory Equipment	659,746.01		
Depreciation - Sports Equipment	22,846.68		
Depreciation - Technical and Scientific			
Equipment	93,642.07		
Depreciation - Other Machineries and			
Equipment	<u>544,403.09</u>	1,419,792.77	
Transportation Equipment			
Depreciation - Motor Vehicles		87,654.96	
Other Property, Plant and Equipment			
Depreciation - Other Property, Plant and			
Equipment	<u>292,464.18</u>		10,835,084.42
Other Maintenance and Other Operating Expenses			
Other Maintenance and Other Operating Expenses		<u>10,463,163.81</u>	<u>54,109,734.07</u>
<b>Total Operating Expenses</b>			<b><u>79,400,501.27</u></b>
<b>NET INCOME (Loss)</b>			<b><u>27,374,767.63</u></b>

**BENGUET STATE UNIVERSITY**  
**Statement of Income and Expenses**  
**For the period ending December 31, 2013**

**Detailed  
Revolving Fund  
161-Main**

**INCOME**

General Income Accounts

Business Income

Sales Revenue	11,528,186.62		
Less: Cost of Goods Sold	-7,896,509.52	3,631,677.10	
Other Business Income		7,699,805.50	11,331,482.60

Other Income

Interest Income			28,238.47	11,359,721.07
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**GROSS INCOME**

**11,359,721.07**

**Less: Expenses**

Personal Services

Salaries and Wages

Salaries and Wages - Regular	402,028.80		
Salaries and Wages - Contractual	168,240.00		570,268.80

Other Compensation

Personnel Economic Relief Allowance (PERA)	82,800.00		
Overtime and Night Pay	122,630.22		
Cash Gift	118,222.92		
Year End Bonus	114,417.91		438,071.05

Personnel Benefits Contributions

PHILHEALTH Contributions			15,787.50
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Other Personnel Benefits

Other Personnel Benefits			96,369.00	1,120,496.35
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Maintenance and Other Operating Expenses

Travelling Expenses

Travelling Expenses - Local			13,304.00
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Supplies and Material Expenses

Office Supplies Expenses	10,581.40		
Accountable Forms Expenses	11,361.00		
Gasoline, Oil and Lubricants Expenses	13,808.79		
Agricultural Supplies Expenses	4,981,792.11		
Other Supplies Expenses	305.00		5,017,848.30

Utility Expenses

Water Expenses	37,554.00		
Electricity Expenses	184,231.98		221,785.98

Communication Expenses

Telephone Expenses - Landline			11,584.74
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Rent Expenses

Rent Expenses			134,820.00
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Repair and Maintenance

Buildings



Repairs and Maintenance-Other Structures			3,193.00	
Taxes, Insurance Premiums and Other Fees				
Fidelity Bond Premiums			1,500.00	
Non-Cash Expenses				
Depreciation				
Buildings				
Depreciation- Office Buildings	27,812.88			
Depreciation- Other Structures	43,263.72	71,076.60		
Office Equipment- Furniture and Fixtures				
Depreciation- Office Equipment	1,457.50			
Depreciation- Furniture and Fixtures	61,143.89			
Depreciation- IT Equipment	23,617.92	86,219.31		
Machineries and Equipment				
Depreciation- Agricultural, Fishery and Forestry Equipment	6,474.09			
Depreciation- Communications Equipment	12,571.80			
Depreciation- Construction and Heavy Equipment	11,250.00			
Depreciation- Other Machineries and Equipment	13,530.63	43,826.52		
Other Property, Plant and Equipment				
Depreciation- Other Property, Plant and Equipment		18,468.15	219,590.58	
Other Maintenance and Other Operating Expenses				
Loss of Assets		60,060.00		
Other Maintenance and Other Operating Expenses		27,990.00	88,050.00	5,711,676.60
<b>Total Operating Expenses</b>				<b>6,832,172.95</b>
<b>Net Income (Loss)</b>				<b>4,527,548.12</b>

**BENGUET STATE UNIVERSITY**  
**Statement of Income and Expenses**  
**For the period ending December 31, 2013**

**Detailed  
Revolving Fund  
163-Main**

**INCOME**

General Income Accounts

Service Income

    Other Services Income 1,607,853.30

Business Income

    Income from Canteen Operations 8,756,537.45

    Income from Dormitory Operations 3,692,068.00

    Sales Revenue 15,216,926.97

        Less: Cost of Goods Sold -14,478,619.90 738,307.07 13,186,912.52

Other Income

    Interest Income 84,539.50 14,879,305.32

**GROSS INCOME**

**14,879,305.32**

**Less: Expenses**

Personal Services

Salaries and Wages

    Salaries and Wages - Regular 1,161,824.40

    Salaries and Wages - Part-Time 8,700.00

    Salaries and Wages - Contractual 1,278,052.52 2,448,576.92

Other Compensation

    Personnel Economic Relief Allowance (PERA) 215,750.55

    Honoraria 19,425.00

    Hazard Pay 26,592.50

    Overtime and Night Pay 179,095.33

    Cash Gift 71,720.00

    Year End Bonus 88,092.24 600,675.62

Personnel Benefits Contributions

    PHILHEALTH Contributions 4,187.50

Other Personnel Benefits

    Other Personnel Benefits 54,279.00 3,107,719.04

Maintenance and Other Operating Expenses

Travelling Expenses

    Travelling Expenses - Local 10,013.00

    Travelling Expenses - Foreign 32,317.50 42,330.50

Training and Scholarship Expenses

    Training Expenses 8,200.00

Supplies and Material Expenses

    Office Supplies Expenses 4,670.00

    Accountable Forms Expenses 28,356.10

    Medical, Dental and Laboratory Supplies Expenses 203,309.67

    Gasoline, Oil and Lubricants Expenses 2,360.00

    Other Supplies Expenses 5,079,828.13 5,318,523.90

Utility Expenses

    Water Expenses 71,149.00

    Electricity Expenses 435,401.95

Cooking Gas Expenses		159,807.00	666,357.95
Communication Expenses			
Telephone Expenses - Landline		51,415.88	
Cable, Satellite, Telegraph, and Radio Expenses		34,250.00	85,665.88
Printing and Binding Expenses			
Printing and Binding Expenses			37,200.00
Rent Expenses			
Rent Expenses			161,780.00
Professional Services			
Security Services			325,320.00
Repair and Maintenance			
Buildings			
Repairs and Maintenance-Other Structures		589,809.50	
Machineries and Equipment			
Repairs and Maintenance-Other Machineries and Equipment		4,700.00	
Other Property, Plant and Equipment			
Repairs and Maintenance-Other Property, Plant and Equipment		14,200.00	608,709.50
Taxes, Insurance Premiums and Other Fees			
Fidelity Bond Premiums			3,075.00
Non-Cash Expenses			
Depreciation			
Buildings			
Depreciation- Other Structures	3,008.16		
Office Equipment- Furniture and Fixtures			
Depreciation- Furniture and Fixtures	17,001.42		
Depreciation- IT Equipment	31,894.58	48,896.00	
Machineries and Equipment			
Depreciation- Medical, Dental and Laboratory Equipment	4,363.20		
Depreciation- Other Machineries and Equipment	34,329.61	38,692.81	
Other Property, Plant and Equipment			
Depreciation- Other Property, Plant and Equipment		50,888.35	141,485.32
Other Maintenance and Other Operating Expenses			
Other Maintenance and Other Operating Expenses			18,228.75
Financial Expenses			
Bank Charges			2,100.00
<b>Total Operating Expenses</b>			<b>10,526,695.84</b>
<b>Net Income (Loss)</b>			<b>4,352,609.48</b>