

The Fiscal Context and the Role of the Budget Manager

Understanding how to forecast, build, and manage a budget is an essential skill for all administrators in higher education. Almost every administrative position in higher education carries some responsibility for budget management. From the new professional managing a small program budget to a program director, dean, or vice president, understanding the budget and skill in managing budget issues and problems are critical competencies for administrative success.

This chapter focuses on increasing the reader's understanding of the process of obtaining financial support for institutions of higher education. Attention is first paid to the complex fiscal context for American higher education. Second, the chapter focuses on the differences in fiscal issues among public, private, and for-profit institutions of higher education. Next, the responsibilities of the person who manages the budget for an individual program, a department, a division, or a school or college within an institution are discussed. The narrative closes with a discussion of the importance of this information for any administrator in higher education. At the end of the chapter the practical implications of all of this information are illustrated in a case study of Alpha University followed by reflective questions.

The Fiscal Context of American Higher Education

Higher education institutions, regardless of the type of institution, are experiencing great changes related to identifying and

capturing fiscal resources to support educational endeavors. These include increased competition for funds within both the public and private economic sectors; increased regulations, including a rise in unfunded mandates at the state and federal level; the cost of technology; competition for faculty and staff; increased competition for students; concerns about the rising cost of higher education to students and their families; increasing dependence on students to finance their education; and rising costs for the purchase of goods and services.

Not-for-profit higher education institutions are also facing competition from for-profit institutions, which have proliferated across the country and grown from a focus on specialized certificate programs to include four-year undergraduate and graduate degree granting institutions. While this sector has faced challenges of its own, including increased scrutiny from governmental agencies and difficulties with enrollment (Associated Press, 2016), it is likely to continue to be an important part of the higher education landscape moving forward.

Increased Competition for Funds

Competition for funds has increased in both the public and private sector over the last decade and is likely to continue into the future. K–12 education is one of the largest areas of expenditures for state governments. Many state health care programs have expanded to meet the needs of an aging population. Other programs, such as prisons and public safety, have grown because of the increase in criminal behavior and public demand for stricter law enforcement and harsher criminal penalties. While state spending on education (K–16) has remained relatively constant as a proportion of their budgets in recent years, spending on health care and corrections has increased (Center on Budget and Policy Priorities, 2017). In addition, the infrastructure of most states, including street and highways, bridges, tunnels, flood control, and public transportation, are aging and need massive

renovation and repair. Recreational use of public lands has grown, and with that growth has come the need to assure the safety and health of members of the public using the lands and additional construction to provide safe access and egress. The list of state needs seems to be never-ending. Suffice it to say that higher education is but one of many programs seeking support for a very limited amount of money at the state level (Schuh, 2000). The result has been less and less direct fiscal support for public higher education on a per student basis and increased expectations that such institutions develop new ways to obtain the resources necessary to operate the enterprise. In fact, some public institutions have changed their public rhetoric and describe their institutions as state “related” rather than state “supported” because the contribution of the state to the institutional budget has been reduced so much over the last decade of the 20th century and the first decade of the 21st century. The University of Virginia and the University of Vermont are both examples of such institutions.

The reduction in available state funding also influences private higher education in both direct and indirect ways. Directly, the institution may not receive funding for a special project that meets the needs of the state (See Chapter Two). Indirectly, state financial aid grants to individual needy students usually can be used by the student at public, private, and for-profit institutions. If funding for such aid programs is reduced or remains static, more of the cost for individual student aid is shifted to the student or the institution.

During the last decades, many public institutions have also joined their private colleagues in seeking financial support from alumni, foundations, parents, business, and industry. Billion-dollar campaigns, in either the public or private sector of higher education, are no longer unusual and consume a great deal of the time and energy of institutional leaders. Concurrently, other charitable institutions such as museums, youth service organizations, and organizations focusing on diseases and social welfare issues

have also increased their quest for financial support. Competition for private funds is fierce and likely to remain so. Consequently, fundraising has become a major function in many institutions.

Increased Regulations and Unfunded Mandates

Within the last fifty years American higher education has experienced unprecedented growth in regulations from both the state and federal governments (American Council on Education, 2015). Many of these statutory regulations support important opportunities for students, faculty, and staff, but they also require additional institutional investment in order to achieve compliance. However, funding for compliance at either the state or federal level has not been forthcoming. The following are examples of these unfunded mandates.

Security and Safety

The security and safety of students, faculty, and staff has been the subject of a number of federal regulations. For faculty and staff the Occupational Health and Safety Act of 1990 (OSHA) and the Employee Retirement Security Act of 1974 (ERISA) both influence the day-by-day working conditions of most faculty and staff members at institutions of higher education. These regulations focus on everything from the disposal of contaminated materials to the configuration of workstations. The Student Right-to-Know and Campus Security Act and accompanying Department of Education regulations (1999) require notification of all members of the campus community of crime statistics and other crime data on an annual basis. Depending on how that notification is conducted, the costs for printing, mailing, and other means of communication can be quite large.

Student and Employee Privacy

The Family Educational Rights and Privacy Act (FERPA) regulates access to student records and requires institutions to inform

students of their rights under the act on an annual basis. Faculty and staff have privacy protections under the National Labor Relations Act of 1935.

Research Regulations

Regulations governing research are many, but two stand out with regard to costs to institutions. First is The Animal Welfare Act (70 U.S.C. sec. 21.31. *et seq.*) regulating the care of animals used in research on campus. Compliance with the standards required by the federal government under the act has been an expensive investment for most institutions of higher education. Second, research involving human beings is regulated under the Human Subjects Research Act (45 CFR 46) and requires disclosure of risks and monitoring of participation of humans involved in research studies. Compliance with research regulations has direct and indirect costs to the institution that are not funded by the granting federal or state agencies, including hiring staff to monitor compliance across the institution.

Discrimination

A plethora of laws are in place at the federal level prohibiting discrimination in admission and employment. All have direct influence on the conduct of daily life in colleges and universities. While they are essential to assuring equal treatment and inclusion in higher education, all of these statutes have monetary costs associated with compliance with them.

The various discrimination statutes include prohibiting discrimination on the basis of: age (Employment Act of 1967) and race, creed, sex, or national origin (Title VII of the Civil Rights Act of 1964, amended by the Equal Employment Opportunity Act of 1972). These laws impact the complexity of conducting searches for positions, recordkeeping in human resource offices, admissions practices, intercollegiate athletics, and more.

Title IX prohibits discrimination in educational programs, facilities, policies, and employment practices. Intercollegiate athletics is the most striking example of rising costs associated with compliance with Title IX. Providing opportunities for young women to receive athletic opportunities in proportion to their enrollment in the institution has been a very positive change, but the change has great costs associated with it, particularly in Division I schools that provide scholarships for both men and women athletes. In addition, Title IX requirements also influence costs associated with team travel and facilities to support athletic endeavors.

The Rehabilitation Act of 1972 prohibits discrimination in access to educational programs for persons with disabilities if they are otherwise qualified. The Americans with Disabilities Act (1990) is targeted at making programs, facilities, and activities accessible to persons with disabilities. Both statutes are laudable for providing opportunities for higher education to previously underserved populations, but neither of these acts includes funding for upgrading facilities to assure compliance.

Achieving compliance can be further complicated by state statutes and local ordinances that prohibit discrimination on the basis of sexual orientation. In addition, many state statutes and local ordinances have more stringent anti-discrimination regulations than those covered in the federal legislation.

Student Financial Aid

Federal student financial aid programs are complex, and the accompanying regulations for Pell Grants, College Work-Study, and various loan programs can be confusing to students and their parents. The burden of helping students and their families understand and access such programs falls on institutions of higher education without any funding at all from either the state or federal level. This might include printing materials in another language, providing online assistance to prospective students and their families, or sending financial aid staff out to areas where many

prospective students reside to provide hands-on assistance to those unfamiliar with applying for financial aid.

Other Issues

There are state statutes involving audit requirements, grant funding and reporting, fiscal management, and fiduciary responsibilities of officers and trustees of institutions of higher education. In addition there are also federal statutes that must be complied with for cost sharing in grants and contracts and rules for grants and contracts by the Office of Management and Budget (OMB). None of these requirements come with concomitant funding, which must be borne by the institution.

Cost Concerns

The cost of attendance at institutions of higher education, both public and private, is a societal concern and a political one (Pew Charitable Trusts, 2015). Parents, legislators, alumni, and friends of institutions of higher education are all expressing reservations about the rising costs of tuition, fees, and room and board. Boards and commissions at both the federal and state level have focused on the cost of American higher education (Callan and Finney, 1997; Harvey, 1998; and Lingenfelter, 2004). Wadsworth stated, "Tougher economic times could affect the public's view that anyone who really wants a college education can get one. What's more, tougher economic times might well increase families' anxiety about their ability to cover their share of college expenses, as well as the availability of jobs for themselves and their children just coming out of college" (Immerwahr and Foleno, 2000, p. 34).

The issues related to cost of attendance are also directly linked to financial aid for students. Access and choice have been central to the mission of many public and private institutions. In order to support an economically diverse student body, federal and state governments and institutions of higher education have invested heavily in financial aid to students. As the cost of attendance rises, so do

financial aid budgets, and the fiscal resources of all institutions are stretched. The problem is compounded in situations with substantial graduate and professional school academic programs. In such environments, the cost of instruction and research is high and the direct payment by individual students for such educational access is relatively low. The cost of higher education and the funding of financial aid will continue to remain challenges for institutions of higher education.

Concomitant with the rising cost of attendance and a shift in government policy to viewing higher education as more of a private good than a public one (and the resulting shift in governmental aid from grants to loans), there is growing concern with regard to student loan indebtedness (Kantrowitz, 2016). This concern is particularly keen with regard to students who leave college with debt but without a degree (James, 2015). Discussion of student debt spans across all sectors of higher education, but it has been at the heart of much of the scrutiny directed toward the for-profit sector in higher education.

One public policy response to the rising costs of attendance and concerns about student indebtedness has been a focus on “tuition free” college for students. State systems in New York (Jaschik, 2017) and Tennessee (Loboscko, 2017), as well as a number of other public colleges across the nation (Powell, 2017), have implemented “free tuition” programs intended to foster affordability and access for low-income students.

Cost of Technology

Technology is both a blessing and a curse for institutions of higher education. It is a blessing because it provides new tools for communication, administration, and research. But the growth of technology is a curse with respect to cost. Students and faculty come to any institution with high expectations for technology support, including Internet access, networking and wireless connectivity, and they want quick and accurate access to information and data. In a rapidly evolving technological environment, the costs

for both hardware and software are enormous; once the initial investment is made, costs continue to escalate with every change.

Technology also brings opportunities to change the way any institution of higher education does routine business, from keeping student records to supporting a complex research agenda. The installation and continuous upgrades of student information systems, accounting systems, academic support programs such as Blackboard, financial information systems, purchasing, and human resource management are led to very large initial and recurring costs in institutional budgets.

There is an expectation that the communication between the institution and students and potential students, their families, and alumni can be strengthened through the use of technology. In addition, students, their families, alumni, prospective employers of students, and donors and friends of the institution all expect easy access to the information they want and need. This does not come without cost, for the development and maintenance of websites, information portals, e-mail systems, databases, and the movement of traditional hard copy resources such as a library to digitally accessible systems is both expensive and labor-intensive.

Each year new and advanced technological applications are developed to improve instruction, strengthen communication between instructors and students, and between students in a specific class or section. As such new applications are tested and adapted within an academic setting, there are increased costs both to implement and maintain instructional support.

When the technological revolution in higher education started, there was hope that positions could be eliminated as a result of technology, but that has not proven to be the case. In fact, the growth in the use of technology has brought with it increased competition for qualified technical staff between higher education and business and industry. There are many good reasons for installing technological innovations on a college campus. Saving money is not one of them.

Competition for Faculty and Staff

Higher education has been actively competing with business and industry for both the skilled and unskilled workers. The recent economic downturn has eased some of the competition, but for some categories of employees competition with non-higher-education positions remains very strong. Both technical managers and technical support staff are still in high demand in all sectors of the economy, and the problem of attracting and retaining personnel is not limited to staff ranks. New doctoral candidates and young, talented faculty in business, engineering, health care, and computer sciences continue to be heavily recruited by business and industry.

When economic woes in the nation ease, there will again be competition with business and industry for talented faculty and staff in a number of academic disciplines. If turnover is high in some categories of positions, then the issue should be carefully studied. Compensation *may* be an issue, but other policies and procedures may also be contributing to the staff turnover problem. When institutions try to attract and retain new faculty and staff, they must assure that those individuals who are currently a part of the workforce are not disadvantaged by any strategies used to attract new hires. New approaches to compensation and benefits are being developed at some institutions with the goal of reducing turnover, while at others changes are being made in policies to aid those employed at the institution. Whatever the approach, this issue is likely to have huge financial implications for the institution and every budget unit.

Increased Competition for Students

Competition for students is a constant in higher education. Some institutions are absolutely dependent on enrollment to cover the cost of operations for the fiscal year. The loss of even twenty students (and their tuition dollars) at such institutions can mean the difference between fiscal failure and success. For other institutions,

the budget is not as enrollment-driven, but policies of providing access and choice to students, referenced earlier, remain at the forefront of fiscal decisions. Competition for students results in higher financial aid budgets and other tuition discounting schemes, such as a lower tuition rate for a second child from the same family. However, financial aid is often not enough to attract the students desired by the institution. Institutional amenities such as recreation facilities, student centers, wellness centers, residential colleges, and the like are becoming more important to prospective students and their parents. Such amenities do not come without cost, and competition for funds within each institution is likely to increase as the college or university attempts to be more inviting to prospective students.

The cost of the actual recruitment process continues to grow as each institution attempts to put a specific message out to students and their parents. Technology may help ease some of these costs by using e-mail and social networking sites as new recruitment tools, but it is yet unclear what their effectiveness is.

In addition to recruitment efforts for traditional-aged students, many institutions have sought new markets for their educational programs by embracing adult and returning students. Creation of education and support programs for nontraditional students is not an inexpensive undertaking. With new markets come new demands for services. It is a volatile, changing, and risky environment, and the costs associated with recruitment and retention of students must be considered in the development of each annual institutional budget.

Rising Costs of Goods and Services

The Consumer Price Index (CPI) is the standard used to measure the growth or decline of the cost of goods and services in the general economy. The Higher Education Price Index (HEPI) differs from the CPI in that it focuses on a range of goods and services that are most usually purchased by institutions of higher

education, as well as faculty and staff salaries, purchased services such as telecommunication, and commodities such as books, periodicals, supplies, equipment, and utilities (Goldstein, 2005). A more focused index has been developed by the State Higher Education Executive Officers, and use of this index, the Higher Education Cost Adjustment (HECA) demonstrates that the “costs of goods and services in higher education have risen more rapidly than those in the general economy” (Goldstein, 2005, p.23).

Why is this important? Understanding the reasons why the costs of goods and services in institutions of higher education have grown so rapidly is an essential first step. For any institution, exceptional cost increases in any category can cause budget havoc. To illustrate, consider what the unprecedented nearly 300 percent increase in the cost of scholarly journals over the past twenty years (Association of Research Libraries, 2005) has done to library budgets. Or consider what a large increase in the cost of water can do to the efficacy of a grounds and maintenance budget or an auxiliary service budget on a residential campus (see Chapter Five on Auxiliaries for more information).

While costs in all sectors of goods and services have risen, only a careful examination of the way business is done in the institution will mitigate rising cost from having an adverse influence on the budget. For example, are there ways to cut energy or water use by using innovative technology that can pay for itself within three years? Can the library enter into an alliance with other nearby institutions to share scholarly journals so that all are not purchased by every institution? Are there less expensive ways to communicate with parents and students? Creative solutions are needed for these and other questions.

The 2008–2009 Recession

The broader fiscal context of higher education sets very real constraints on what can and cannot be done in any institution of higher education. Goldstein indicates that “The economies of all

institutions are linked with the national economy, which is increasingly connected to the world economy (2005, p. 14). Never has that statement been clearer than in the years since 2008. The 2008–2009 recession had a profound effect on American higher education in both in the public and private sectors. In the public sector, two major issues have been in the news: the reduction of direct state support to the public institutions and the reduction in state grants and scholarships awarded to individual student residents. At least thirty-four states had some reduction in support for public higher education (AASCU, 2009) in the years since the recession. While most states have gradually increased funding to higher education in absolute terms since the recession, state support across the nation has been in decline on a per capita basis for a number of years (Pew Charitable Trusts, 2015), with twelve states reducing per capita funding to higher education in FY 2016 (Mitchell, Leachman, and Masterson, 2016).

Student applications for financial aid increased as the economy suffered. “The federal government’s Pell Grant program, the bellwether of all financial aid programs, has seen a huge increase in the number of applications in light of the economic downturn” (AASCU, 2009, p. 2). The influence of the reductions in direct aid to students at the state level played a significant role in the record growth in enrollments to community college and regional public institutions.

Many states also faced reduced tax bases due to high unemployment rates and business closings or reductions and thus could not meet their obligations to state institutions. Illinois and California provide excellent examples of such conditions. Failure of the states to meet their funding obligations to state supported institutions resulted in actions such as mandatory unpaid furloughs for faculty and staff, reduction in support for equipment replacement, reduction in library support, and postponement of needed repairs and renovations. Some of these measures continue to this day to have ramifications for these state supported institutions.

Private higher education was not been immune from budget cuts. Endowment losses were quite substantial in some institutions. For example, Harvard University, with the largest higher education endowment in the country, initially lost approximately 27 percent of their endowment (Zhu, 2009), and they were not alone. Both large and small institutions sustained substantial losses in their endowments, and if the institution was overly dependent on endowment funds for the annual operating budget, then budget cuts were inevitable. Even prudent institutions with a spending rule for endowment funds were faced with slowing down growth, forgoing raises, postponing capital projects, and using other cost containment measures. Those institutions that relied on an annual fund (donations to the institution during the fiscal year) were also hard pressed to continue all activities, programs, and salary raises if the annual fund drive was not successful. Even prudent institutions had to use a variety of cost containment measures until the full impact of the economic downturn was determined and economic growth returned.

Differences Between Public and Private Institutions

A number of fund sources support both public and private (independent) institutions of higher education. Figure 1.1 graphically illustrates the complexity of funding for both public and private higher education.

Chapter Two reviews the entire range of financial support for both public and private institutions and also focus on the expenses facing higher education entities.

The emphasis and dependence on each source of financial support will vary between institutions even of the same type. Figure 1.2 compares and contrasts the sources of funds for all public and all private not-for-profit institutions of higher education across the country. There are marked differences in the

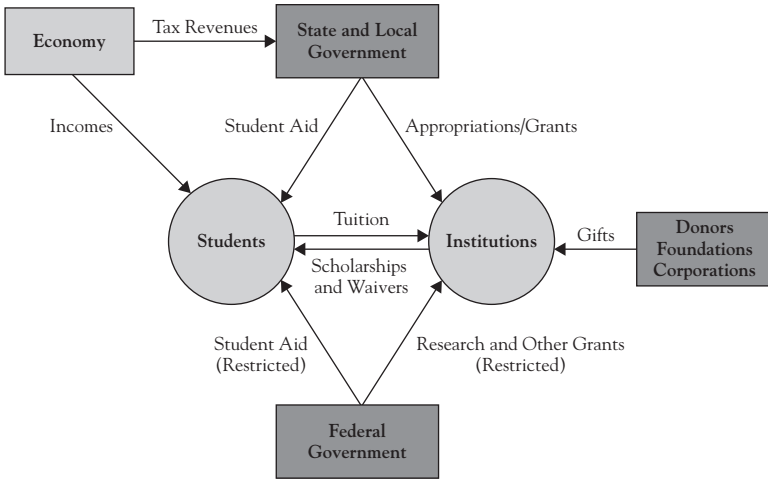
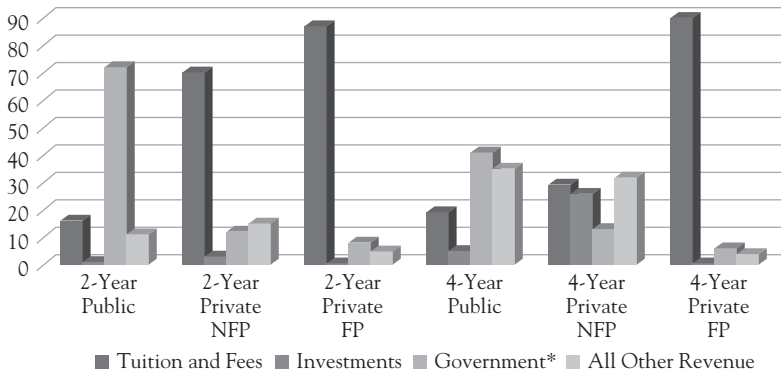


Figure 1.1. Relationships in Financing of Higher Education

Used with permission of NCHEMS Information Center for Higher Education Policymaking and Analysis. Accessed May 25, 2017, at <http://www.higheredinfo.org/catcontent/cat8.php>



NFP = Not-for-profit

FP = For-profit

*Government includes grants, contracts, and appropriations from local, state, and federal governments.

Figure 1.2. Distribution of Revenues by Source in Higher Education

Adapted from U.S. Department of Education, National Center for Education Statistics, 2013.

sources of funds in three areas: government support, tuition and fees, and investments. As demands for the use of state and federal funds for other purposes continues to grow, public institutions have adopted many of the strategies of private institutions to obtain funds to support educational endeavors. The greatest difference between public and private institutions is the degree of control on matters of finance that is exercised beyond the campus.

Control and Approvals

In private institutions, financial policies, investment strategies, and institutional policies are controlled, either through the governing board or through other campus-based governance and administrative bodies. This approach provides greater degrees of freedom in using resources to meet unexpected needs or problems. For example, the cost of technology has required reallocation at many private institutions. Permission for that reallocation did not have to be sought beyond the campus. For public institutions, often permission must be sought from the system office, the state coordinating board, some other oversight board, or the legislature itself to change the approved uses of legislative appropriations.

Policies

Fiscal policies at private institutions are likely to be less cumbersome, permitting transfers of funds for reasonable purposes without outside approvals and other bureaucratic barriers. There is great unit accountability, and the unit is examined if there is a deficit at the end of the fiscal year.

In public institutions, usually the institutional budget office must grant permission for line item transfers over a specified dollar amount. Sometimes, for certain categories of expenditures, the governing board or the supervising state higher education agency must approve such transfers.

Human Resource Issues

In both types of institutions, there is concern for unbridled growth in the number of positions at the institution. Adding new positions in public institutions is usually more difficult than in the private sector, although in both arenas the budgeting unit must account for both salary or wages and other costs (for example, benefits) associated with such positions and the money must be available to fund the position.

Compensation for faculty and staff is a major issue in both public and private institutions. The growth of technology, in particular, has made persons with such backgrounds highly sought after in the marketplace. Higher education, in both sectors, has had to develop new compensation guidelines to keep and attract technical staff, and traditional compensation models do not appear to work at either type of institution.

Unions are present at both public and private institutions and create special human resource issues, including work rules and compensation. A union environment creates proscribed conditions for handling issues of employee discipline, workloads, benefits, and financial reward structures.

Both types of institutions also must comply with state and federal regulations and laws relating to issues of equal opportunity, disabilities, sexual harassment, workers' compensation, civil rights, and health and safety. The budget is also intertwined with a number of legal and institutional requirements regarding personnel. To illustrate, there are pay scales for certain types of employees, such as state minimum wage requirements, that cannot be ignored in the hiring of new personnel.

Purchasing

Public and private institutions have regulations regarding purchasing goods and services. For many public institutions, purchasing goods and services can be complicated by mandatory state contracts

for certain goods and services at all state agencies, including public colleges or universities. When a state contract is in place for a certain product, the unit budget manager must show cause not to purchase from that source. State bidding laws vary from state to state by low-bid requirements, sometimes requiring institutions to purchase something when another product might better meet their needs. Thus, when contract criteria are decided upon, institutional personnel should try their best to have their input considered in the development of such language.

An additional complication occurs when a state has a mandatory requirement that all state agencies adhere to low bids on all state contracts. Unless the bidding language is very precise, the result can sometimes be the selection of a vendor or product that is inferior or does not meet the requirements of an institution of higher education.

Usually at private institutions, purchasing requirements are less rigid and are not complicated by blanket state contracts. In fact, purchasing for many items is highly decentralized in a private institution, with the unit taking responsibility for seeking bids and making decisions on the purchase. Whereas, on the surface such freedom can seem very attractive, it also requires that each person responsible for the budget exercise due diligence in managing the resources of the institution under their control.

Audit Requirements

Audit requirements exist for both private and public institutions. An external audit provides an independent review of the decisions made in a unit or department. Such audits can be costly and have financial implications for the institution or sometimes the budget unit being audited. Both financial and management reports are issued when an audit occurs, and after review the responsible persons in the department agree to needed changes in unit policies and procedures in order to comply with the audit findings. A regular follow-up is then conducted to assure that the needed changes have been adopted.

In some public or private institutions, an internal audit office regularly conducts audits of all departments of the institution. If an administrator is lucky enough to be in such an institution, use of the internal audit office can strengthen budgetary and procedural oversight within the institution. As a new manager, it is a good practice to ask the internal audit office to conduct an audit of the unit to identify problems or weaknesses in financial and budgetary procedures. In other institutions, audits are conducted by an outside firm. Whatever the process, good auditing can strengthen the financial management of a budget unit.

Public institutions encounter the added complication of audits from the state level. For example, in Illinois the Auditor General is required by law to regularly conduct audits of all state agencies, including public colleges and universities. The audit findings are then issued to the institution or unit within the institution, and a written public response must be made to any negative finding. A negative audit finding by the state agency can be a source of institutional embarrassment, since it is a very public record.

The Role of a Budget Manager

Budgets and financial matters never seem to be topics that stir the souls of individual program managers, department heads, or administrative staff. However, mastering the skills involved in budget management and understanding the budgetary processes of the institution are essential for success as a vice president, dean, department chair, director, assistant director, or other administrative or management position. Good managers in higher education have a primary role of garnering the resources needed to implement the ideas, programs, and services needed to meet the educational mission of the institution and the unit. Depending on the function of the budgetary unit, this could mean having sufficient resources to provide the classes and instruction required, the equipment needs for laboratories or research project, or services and programs for students. It is not enough, however,

to merely obtain money to support the unit. Those with budget responsibility must assure that resources are spent in accordance with institutional policies and all applicable statutes. For unit goals and objectives to be reached, the needed human and fiscal resources must be in place, which requires the individual with budget management responsibilities to master budgeting and financial processes and procedures.

The organization of each institution of higher education is unique. Some complex institutions have many program and administrative units and many layers of authority for decision making and financial management. Other institutions are organized in a less complex fashion. No matter what the organization of the institution or the specific title of the unit budget manager (program manager, director, chair, assistant or associate dean, dean, assistant or associate vice president or vice president) the role of the person with budget management responsibility is very consistent. They must make sound fiduciary judgments, be informed listeners, be adept in gathering fiscal resources, be institutional friend makers, and be fiscal problem solvers for the unit.

Sound Fiduciary Decision Making

The financial success of the institution is highly dependent on each person with budget management responsibilities consistently making sound fiduciary judgments. Those decisions must be made every day for both big and small expenditures. A budget manager often is faced with pressure to do what is easiest or most expedient, but being a sound and honest budget manager requires constant attention to detail and to policies and procedures. In addition, an effective budget manager, at any level, must follow institutional fiscal policies, meet deadlines, and solve problems before they become major concerns to the institution or the unit. Sound and consistent fiscal management is an essential first step toward general management effectiveness.

Informed Listening

A second, but less recognized role of a person with budget management responsibility is that of an informed listener for the institution. It is often the departmental person managing the budget who hears of issues and problems influencing employee morale or their ability to do their work. For example, it is usually someone in an administrative or academic department who experiences a problem with a new purchasing or human resource data system that has been installed. If that person just assumes that those responsible for maintaining the system know of the problem, rather than reporting it to them, things will not get any better. The wise administrator with budget management responsibilities will convey specific concerns to those who can address the problem and offer to partner with others in an improvement effort. Such partnerships could include providing test purchase orders so that the specific problem can be identified or specifically demonstrating the problems he/she has experienced trying to input a newly hired staff member into the human resources data system. The time and energy involved with such problem-solving partnerships are well worth the effort and reduce frustration for everyone involved.

Resource Gathering

A third function of a person with budget management responsibilities focuses on resource gathering through fundraising. Requests for outside funding should always be coordinated through the appropriate institutional office and, if a young and eager colleague fails to do so, the wise budget administrator helps him or her mend relationships while fixing the problem. In addition, the unit budget manager can partner with other units in the purchase of major equipment that might be shared or cover vacation absences of clerical staff through sharing part-time personnel between departments.

Friend Making

Budget management also involves serving as a friend-maker for the institution in interactions with vendors and members of the public. One development officer noted in a casual conversation that everyone in the institution has the potential to be a friend-maker for the institution, but that they rarely recognize their responsibility to do so. Helping staff members within the units understand and appreciate this important role is an essential responsibility of a budget manager.

Fiscal Problem Solving

Finally, those with budget management responsibilities are also the problem solvers for the unit when it comes to fiscal issues. Helping colleagues figure out how to approach a problem and achieve an optimal solution is a critical skill that helps any budget unit achieve success. In order to fulfill this role, budget managers must develop a web of helping relationships and partnerships across the campus. Understanding who to call under what circumstances is a prime function of anyone with fiscal responsibilities. To be a good steward of fiscal resources requires much more than knowledge of money and balance sheets, although such a firm knowledge base certainly helps.

Why Does All This Matter?

Understanding the broader fiscal context for higher education is a first step in becoming an effective budget manager for a unit. No budget or program in an institution of higher education stands alone. The budget requests for one unit may have implications for another. To illustrate, the person who has budget responsibilities for the learning disabilities center sees a quick solution to the need for more money to provide additional services to students: charge students for screening tests that up to this time were offered without charge. This approach to solving a budget dilemma has ramifications

beyond the learning disabilities clinic. A fee-for-services approach might, for example, influence the financial aid budget or the athletic budget, or there may be legal implications for the institution. When it comes to money, unilateral decisions should not be made by one part of the institution, as this risks unexpected consequences.

Many similarities exist between the fiscal realities faced by private and public institutions of higher education. However, there are also differences. Understanding those differences and the unique policies and procedures related to institutional type will help anyone with budget responsibilities to be more effective. For example, most public institutions are concerned with the growth of their workforce and so new positions are subject to a rigorous review process. As a budget manager, you may even have the money to create the new position, but you may not have the authority to hire for a new position without approvals elsewhere in the institution or at the state level. In a well-endowed private institution, however, the concern is to control total expenditures, not just positions. The essential point is that those with budget management responsibilities must understand the important funding priorities for their institutions, the sources of funds, and the budgetary procedures of their institutions.

Alpha University

Alpha University and its sister institution Beta State University have been created to illustrate the complexity of budget decisions at any university. Both will be referred to in this volume. The following case study, involving a budget surplus, illustrates what institutions must confront when making budget decisions.

Case Study: Bountiful Times at Alpha University

Alpha University is a mid-sized public institution in a state where institutions receive some support from the state (which varies from year to year). Alpha has a modest endowment, is dependent on

mandatory fees to provide many student services (recreation, inter-collegiate athletics, health service), is able to retain the tuition revenue at the local level that is generated through enrollment, and has a modest research program that has been remarkably successful.

A combination of factors has resulted in increased revenue to the institution of approximately \$10 million for the next fiscal year. The increase in revenue is the result of a modest increase in tuition; new charges for the rental of facilities to outside groups; modest enrollment growth at the undergraduate level; two bequests that endowed faculty positions in English and in chemistry, providing budget relief for the institution; a 2 percent increase in state funding; an increase in mandatory student fees and room and board costs; and modest growth in research grants, resulting in an increase in indirect cost reimbursement to the institution. The result is a net increase of \$10 million to the institution.

The university budget committee has received budget increase requests totally more than \$14 million for the next fiscal year. Although it is clear that all such requests cannot be funded, the question of how to allocate the new revenue is much more complex than simply denying funding to \$4 million in requests. Issues that influence the allocation of the \$10 million in additional revenue include the following:

- A governing board policy that requires that any increase in tuition and fees must result in a proportional increase in the student financial aid budget (estimated cost: \$1 million).
- The faculty and staff are expecting at least a 3.5 percent salary increase for the next fiscal year (estimated cost: \$2.8 million).
- Health insurance costs have skyrocketed, resulting in a premium increase for the next fiscal year (estimated cost: \$650,000).
- After a Title IX complaint, an agreed on settlement with the Office of Civil Rights involves an increase in support

for women's intercollegiate athletics (estimated cost: \$450,000 in the first year, \$300,000 a year thereafter).

- New faculty must be hired for the next academic year to cover the increased demand for required core courses. There has been an increase in student complaints regarding their inability to get into needed core courses in a timely manner and inquiries have come from parents and legislators (estimated cost: \$750,000 in the base budget).
- The first phase of a three-year upgrade of the network and supporting software must begin in the next fiscal year (estimated cost: \$1,500,000 each year).
- The counseling center has a long waiting list and is requesting two additional positions for the regular academic year and one for the entire fiscal year (estimated cost including benefits and increased malpractice premiums: \$270,000).
- The governing board would like to attract more National Merit Scholars and has strongly suggested that the institution present a budget with a substantial increase in the institutional base budget for that purpose (estimated cost: \$500,000 per year).
- The physical plant would like to install programmable thermostats in all academic buildings to reduce heating costs at night and on the weekend (estimated cost: \$250,000, which would pay for itself in five years).
- The chemistry department needs new lab equipment for introductory classes (estimated cost: \$200,000).
- Resurfacing of the parking lots in the north campus (estimated cost \$100,000).
- Addition of a new master's degree program in integrated management (estimated cost: \$1 million, intended to pay for itself in six years).

- Reconstruction of interview space in the Career Planning and Placement area (estimated cost: \$300,000).
- Establishment of a freshman seminar program for all entering first-year students regardless of major (estimated cost: \$525,000).
- Development of a strong alumni network for career planning (estimated cost: \$100,000).
- Adding two intramural playing fields with lights on undeveloped land (estimated cost: \$1.2 million).

The task of the budget committee is to make recommendations to the president regarding what budget requests should be approved for the next year. For this year only capital requests and general operating requests are being considered together because of the additional available revenue. As members of the committee, you must decide what recommendations to make to the president and the board. As part of that recommendation you must identify:

1. The mandated increases that *must* be funded.
2. A priority list of other budget requests with justifications for those requests.

References

- American Association of State Colleges and Universities State Relations and Policy Analysis Research Team. "Top Ten State Policy Issues for Higher Education in 2009." *AASCU Policy Matters*, January 2009.
- American Council on Education. "Recalibrating Regulation of Colleges and Universities: Report of the Task Force on Federal Regulation of Higher Education." Washington, DC: Author, February, 12, 2015. Accessed on May 25, 2017, at https://www.help.senate.gov/imo/media/Regulations_Task_Force_Report_2015_FINAL.pdf
- Associated Press. "Amid Scrutiny, For-Profit Colleges See Enrollment Slide." *Chicago Tribune*, September 22, 2016. Accessed on May 25, 2017, at <http://www.chicagotribune.com/business/ct-for-profit-colleges-enrollment-slide-20160922-story.html>

- Association of Research Libraries. *ARL Statistics 2003–04*. Washington, DC: Association of Research Libraries, 2005. Accessed on May 2, 2010, at <http://www.arl.org/bm~doc/arlstat04.pdf>
- Callan, P., and Finney, J. (Eds.). *Public and Private Financing of Higher Education: Shaping Public Policy for the Future*. Washington, DC: American Council on Education/Oryx Press, 1997.
- Center on Budget and Policy Priorities. “Policy Basics: Where Do Our State Tax Dollars Go?” Washington, DC: Author, April 24, 2017. Accessed on May 25, 2017, at <http://www.cbpp.org/research/state-budget-and-tax/policy-basics-where-do-our-state-tax-dollars-go>
- Goldstein, L. *College and University Budgeting*. Washington, DC: National Association of College and University Business Officers, 2005.
- Harvey, J. *Straight Talk About College Costs and Prices: The Report of the National Commission on the Cost of Higher Education*. Washington, DC: American Institutes for Research, 1998.
- Immerwahr, J., and Folen, T. *Great Expectations: How the Public and Parents: White, African-American and Hispanic—View Higher Education*. San Jose, CA: National Center for Public Policy and Higher Education, May 2000 (pp. 33–34).
- James, K. “Debt and No Degree.” *U.S. News & World Report*, December 29, 2015. Accessed on May 29, 2017, at <https://www.usnews.com/opinion/knowledge-bank/articles/2015-12-29/the-student-loan-debt-problem-is-overblown>
- Jaschik, S. “New York Adopts Free Tuition.” *Inside Higher Ed*, April 10, 2017. Accessed on May 29, 2017, at <https://www.insidehighered.com/news/2017/04/10/new-york-state-reaches-deal-provide-free-tuition>
- Kantrowitz, M. “Why the Student Loan Crisis Is Even Worse Than People Think.” *Time*, January, 11, 2016. Accessed on May 29, 2017, at <http://time.com/money/4168510/why-student-loan-crisis-is-worse-than-people-think/>
- Lingenfelter, P. et al. *State Higher Education Finance. FY2003*. Denver, CO: State Higher Education Executive Officers, 2004.
- Loboscko, K. “Tennessee Makes Community College Free for All Adults.” *CNN*, May, 11, 2017. Accessed on May 29, 2017, at <http://money.cnn.com/2017/05/11/pf/college/tennessee-free-community-college/>
- Mitchell, M., Leachman, M., and Masterson, K. “Funding Down, Tuition Up.” Washington, DC: Center on Budget and Policy Priorities, August 15, 2016. Accessed on May 25, 2017, at <http://www.cbpp.org/research/state-budget-and-tax/funding-down-tuition-up>
- National Center for Educational Statistics. Postsecondary Revenues by Source, Figure 1. Washington, DC: Author, 2013. Accessed on May. 25, 2017, at https://nces.ed.gov/programs/coe/pdf/Indicator_CUD/COE_CUD_2013_05.pdf

- Pew Charitable Trusts. "Federal and State Funding of Higher Education: A Changing Landscape." Philadelphia, PA: Author, June, 11, 2015. Accessed on May 24, 2017, at <http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2015/06/federal-and-state-funding-of-higher-education>
- Powell, F. "More Public Colleges Start Tuition-Free Programs." *U.S. News & World Report*, March 8, 2017. Accessed on May 29, 2017, at <https://www.usnews.com/education/best-colleges/paying-for-college/articles/2017-03-08/more-public-colleges-start-tuition-free-programs>
- Quinton, S. "The High Cost of Higher Education." Philadelphia: Pew Charitable Trusts, January 25, 2016. Accessed on May 25, 2017, at <http://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2016/01/25/the-high-cost-of-higher-education>
- Schuh, J. "Fiscal Pressures on Higher Education and Student Affairs." In M. J. Barr and M. K. Desler (Eds.), *The Handbook of Student Affairs Administration*. San Francisco: Jossey-Bass, 2000.
- Zhu, P. "Harvard Endowment, Largest in Higher Education Plummet." *The Harvard Crimson*, September 19, 2009.

Reflection Questions

1. What constraints from the larger environment will influence the daily work of your unit?
2. What are the potential opportunities for your unit because of events and decisions within the larger environment?
3. Is your unit responsible for responding to unfunded federal and state mandates? If so, what are the budget implications for this fiscal year and beyond?
4. As you set priorities, what criteria should you use in doing so?
5. What budget choices are one-time only and what choices would lead to multi-year obligations for the institution?
6. What political or other internal campus dynamics will influence the committee's recommendation?

