

Budgets and Financial Management

IN HIGHER EDUCATION

Margaret J. Barr
George S. McClellan



Budgets and Financial Management in Higher Education

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Preface

Most administrators in institutions of higher education carry responsibility for budget management. It may be only one of many parts of their responsibilities but it is critical to their success. Individuals charged with budget responsibility, however, often do not have training or experience in managing this important function. Assumptions are often made that because a person is experienced in program development, teaching, or research that they are familiar with the basic principles of budgeting and financial management. This is not necessarily true, and this volume has been written to fill part of that gap in knowledge and experience.

The target audiences for the volume include managers in a variety of roles within higher education, including director, dean, vice president, department chair, coordinator, and program director. Graduate students studying higher education administration at both the master's and doctoral level will also find this version of the book to be useful. This volume is intended for those with limited exposure to higher education budgets and fiscal management. Written in plain language, it is intended for readers who do not have a strong background in matters financial.

This text is based on a successful 2002 monograph, *The Jossey-Bass Academic Administrator's Guide to Budgets and Financial Management*. The original monograph was focused on helping those new to budget responsibilities in academic affairs understand the

language and the processes of budget management in higher education. This edition builds on that work but expands it in some critical areas, including an expanded focus on budget models in higher education and an expanded discussion of the fiscal management of auxiliary enterprises. The text has also been expanded to address the broader audience of those with new or expanded budget responsibilities in higher education and to include a more in-depth discussion of the factors involved in developing and implementing an institutional budget. Information has been updated throughout the text to reflect contemporary conditions in higher education. Auxiliary and capital budgets are covered in greater depth in a separate chapter. A case study involving budget increases at Alpha University in Chapter One provides an opportunity for readers to apply information learned to an actual situation. The fictional Alpha University is referenced many times in subsequent chapters to illustrate important concepts. Alpha University is revisited in another case study in Chapter Seven and provides an opportunity for readers to apply what they have learned. Chapter Seven also contains a case study on Omega College added to illustrate the unique challenges facing smaller, private, tuition-dependent universities. Each chapter closes with a set of reflective questions to help the reader apply the information to the specific set of circumstances and challenges that they face.

Chapter One, “The Fiscal Context and the Role of the Budget Manager,” discusses the broader fiscal forces that influence funding in American higher education. In addition, the chapter contains a discussion of the role of a budget manager (whether it is a full or part-time responsibility) within a budgetary unit and within the greater institutional environment. Chapter Two, “Primary Elements of the Budget: Revenue and Expenses,” presents the various sources of revenue and the broad categories of expenses that characterize budgets in higher education. Attention is given to the issues that should be confronted when dealing with revenue and expenses. Chapter Three, “Understanding Budgets,”

discusses the purposes of the budget, the different types of budgets, and the different budget models that may be part of the responsibility of any administrator in higher education. In Chapter Four, “Management of the Budget Cycle,” the discussion centers on the ongoing nature of budget management and the need to understand the past, present, and future fiscal issues of the budget unit. Auxiliary enterprises and capital budgets provide special issues in fiscal management. Chapter Five, “Understanding Auxiliary and Capital Budgets,” clarifies the challenges and opportunities facing budget managers dealing with those enterprises. Any administrative position is fraught with problems that must be solved and pitfalls that should be avoided; budget management is no exception. Chapter Six, “Problems and Pitfalls in Budget Management,” discusses those issues in detail and suggests how to confront problems and avoid pitfalls. Finally, Chapter Seven, “Managing Budget Fluctuations,” offers suggestions on how to manage both budget cuts and new resources flowing into the institution and budget unit. Also in Chapter Seven, Alpha University is revisited in an additional case study with budget reductions as the task for the reader. Chapter Seven also contains a new case study on Omega college that permits the reader to apply the information learned throughout the volume. The book concludes with a Glossary of Terms, which we hope will be helpful to readers in understanding the terminology used throughout the volume as well as in their daily work as budget managers within an institution of higher education.

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Peggy Barr would like to thank her colleagues at several institutions for helping her gain an understanding of financial matters in higher education. Those individuals include John Pembroke, Leigh Secrest, the late Bill Fischer, Gene Sunshine, Sheila Driscoll, and Eric Wachtel. She would also like to thank her

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George McClellan is grateful to all those who have helped shape his journey in the student affairs profession, not the least of whom are the students who have allowed him in ways direct and indirect to be a part of their amazing stories. Particular thanks go to two colleagues at Indiana University–Purdue University Fort Wayne: Chancellor Mike Wartell for his continued support for George’s efforts as a practitioner scholar and Dave Reynolds for being a truly wonderful budget manager. Last but not least, George is particularly thankful to Peggy Barr for being his mentor, friend, and partner for this project.

Our purpose was to write a book that instructs, informs, and aids our colleagues who are facing fiscal management responsibilities as part of their responsibilities. We hope it does that.

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About the Authors

Margaret J. Barr served as vice president for student affairs at Northwestern University from October 1992 until July 2000 when she retired. She currently is professor emeritus in the School of Education and Social Policy at Northwestern and is engaged in part-time consulting, writing, and volunteer work. Prior to her appointment at Northwestern, she was vice chancellor for student affairs at Texas Christian University for eight years. She also served as vice president for student affairs at Northern Illinois University from 1982 to 1985 and was assistant vice president for student affairs at that same institution from 1980 to 1982. She was first assistant and then associate dean of students at the University of Texas at Austin from 1971 through 1980. She has also served as director of housing and director of the college union at Trenton State College and assistant director and director of women's residences at the State University of New York at Binghamton.

In her various administrative roles, Barr has always carried responsibilities for supervision of operating budgets. During her eighteen years as a vice president, she supervised operating and reserve budgets for both auxiliary and institutionally allocated budgets. She has been involved in a number of capital projects, including the construction of new residence halls, new recreation facilities, and dining facilities and renovations of multicultural centers, residential units, and an academic advising center.

She has held numerous leadership positions with the American College Personnel Association (ACPA), including a term as president (1983–1984). She has been the recipient of the ACPA Contribution to Knowledge Award (1990) and Professional Service Award (1986) and was an ACPA Senior Scholar from 1986 to 1991.

She also has been active in the National Association of Student Personnel Administrators (NASPA), including service as the director of the NASPA Institute for Chief Student Affairs Officers (1989, 1990) and president of the NASPA Foundation Board (2000–2002). Barr was the recipient of the NASPA Outstanding Contribution to Literature and Research Award in 1986, the award for Outstanding Contribution to Higher Education in 2000, and was named a Pillar of the Profession by the NASPA Foundation in that same year.

She is the author or editor of numerous books and monographs, including, *The Handbook of Student Affairs Administration* (1993), co-editor of the second edition of *The Handbook of Student Affairs Administration* (2000) with M. Desler, co-author of *Critical Issues for Student Affairs* (2006) with Arthur Sandeen, co-editor of *New Futures for Student Affairs* with M. Lee Upcraft (1990), the editor of *Student Affairs and the Law* (1988), and co-editor of *Developing Effective Student Service Programs: A Guide for Practitioners* with L. A. Keating (1985). She served as editor-in-chief for the monograph series *New Directions for Student Services* from 1986 to 1998. She also is the author of numerous books and monograph chapters.

Barr received a bachelor's degree in elementary education from the State University of New York College at Buffalo in 1961 and a master's degree in college student personnel–higher education from Southern Illinois University, Carbondale, in 1964. She received a PhD in educational administration from the University of Texas at Austin in 1980.

George S. McClellan is the vice chancellor for student affairs at Indiana University–Purdue University Fort Wayne (IPFW). Before coming to IPFW, he was vice president for student development at Dickinson State University in Dickinson, North Dakota, and served students in a variety of roles at the University of Arizona and Northwestern University. During his service at Northwestern University, McClellan held a variety of professional positions, which included responsibility for graduate and professional housing, food service, and campus commons. Throughout his career he has had significant responsibility for the development and management of budgets, including auxiliary and capital budgets.

McClellan has served in a variety of leadership positions in student affairs. He is a member of the editorial board of both the *Journal of College Student Development* and the *Journal of College and Character* and was co-editor of the third edition of *The Handbook for Student Affairs Administration* (2009) with Jeremy Stringer. He was a member of the National Association of Student Personnel Administrators (NASPA) Foundation Board and a founding member of that association's Administrators in Graduate and Professional Student Services Community and its Indigenous Peoples Knowledge Community. He served as chair or co-chair of NASPA's Task Force on Gambling and its Ad Hoc Work Group on the Voluntary System of Accountability.

He received the Outstanding Contribution to Research in American Indian Higher Education award from the Native American Network of the American College Personnel Association in 2002. He was recognized by the NASPA Foundation as a Pillar of the Profession in 2010.

McClellan received his PhD in Higher Education from the University of Arizona (2003). Both his M.S.Ed. in Higher Education (1998) and BA in English and American Literature (1982) were earned from Northwestern University.

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 a new professional managing a small program budget to a program director to a 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. It first addresses the complex fiscal context for American higher education. It then focuses on the differences in fiscal issues between public and private (independent) institutions of higher education. Next it discusses 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. The chapter 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 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, whether public or private, are experiencing great changes related to identifying and capturing fiscal resources to support educational endeavors. The broader

fiscal context of higher education sets very real constraints on what can and cannot be done in any institution of higher education. These broader fiscal issues include the influence the recession of 2008–2009 has had on the funding for both private and public higher education; increased competition for funds within both the public and private economic sectors; increased regulation, including a rise in unfunded mandates at the state and federal levels; the cost of technology; increased competition for faculty and staff; increased competition for students; concerns about the rising cost of higher education to students and their families; and rising costs for the purchase of goods and services.

The 2008–2009 Recession

Goldstein states: “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 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, January 2009), with Arizona, California, and Florida being notable examples. In general, state funding for higher education was substantially reduced in FY2009 and further reductions are being anticipated in many public institutions of higher education in the future.

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 face 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 will have ramifications far into the future for state-supported institutions.

Private higher education has also not been immune from budget cuts. Endowment losses have been quite substantial in some institutions. For example, Harvard University, with the largest higher education endowment in the country, initially lost approximately 27% 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 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.

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. In most states, state government has become a growth