

Margaret J. Barr | George S. McClellan

# Budgets and Financial Management

IN HIGHER EDUCATION



THIRD EDITION



# Budgets and Financial Management in Higher Education



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Margaret J. Barr  
George S. McClellan

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Published by Jossey-Bass

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One Montgomery Street, Suite 1000, San Francisco, CA 94104-4594—[www.josseybass.com](http://www.josseybass.com)

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#### **Library of Congress Cataloging-in-Publication Data**

Names: Barr, Margaret J., author. | McClellan, George S., author.

Title: Budgets and financial management in higher education / by Margaret J.

Barr, George S. McClellan.

Description: Third Edition. | San Francisco, California : Jossey-Bass, A

Wiley Brand, [2018] | Series: The Jossey-Bass higher and adult education series | Includes index. |

Identifiers: LCCN 2017033424 (print) | LCCN 2017035837 (ebook) | ISBN 9781119287773 (pdf) | ISBN 9781119287766 (epub) | ISBN 9781119287735 (Cloth)

Subjects: LCSH: Education, Higher—United States—Finance. | Universities and colleges—United States—Business management.

Classification: LCC LB2342 (ebook) | LCC LB2342 .B3245 2018 (print) | DDC 378.1/06—dc23

LC record available at <https://lccn.loc.gov/2017033424>

Cover design: Wiley

Cover image: © Chris Ryan/Getty Images

Printed in the United States of America

THIRD EDITION

HB Printing 10 9 8 7 6 5 4 3 2 1

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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, frequently 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, he or she is 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 levels will also find this book to be useful. Whatever their role in higher education, 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.

The first version of this text was *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 to understand the language and the processes of budget management in higher education. The original text built on the monograph in some critical areas, including broadening the focus on budget models in higher education and an expanding the discussion of the fiscal management of auxiliary enterprises. That original text also addressed a broader audience of those with new or expanded budget responsibilities in higher education and included a more in-depth discussion of the factors involved in developing and implementing an institutional budget. Just as the original text built on the monograph, this revised version builds on the original. The core content of the book remains largely the same, as good budget practice is relatively timeless. The changes that have been made reflect the (tremendously) valuable feedback received from students, faculty members, and professionals who made use of the original text. Information has also been updated throughout the text to reflect contemporary conditions in higher education, and the case studies have also been updated with the same purpose in mind. Beta State University, a new fictional institution, is also introduced in Chapter Three.

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. The revised chapter includes more recent information on the fiscal environment following the 2008–2009 recession. There is also discussion of the findings of the bipartisan task force on the costs associated with federal regulations in higher education and on budget implications from a wave of retirements. The information on the for-profit sector has also been expanded.

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. This version features greater explication of the challenges related to restricted funds, notes on new strategies institutions are pursuing to increase revenue from tuition, updates on endowment revenue and greater regulatory scrutiny of them, and similar comments regarding the scrutiny of foundations associated with universities.

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. It now introduces readers to Bowen’s theory regarding resources and expenses. 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. Implications of the timing of hiring cycles on budget development, particularly as they relate to hiring in academic positions, are now addressed.

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. Revisions in this chapter include additional discussion of maintenance and replacement cycles, a specific section on sustainability, and discussion of new social concerns as they relate to budgeting. Chapter Six, “Problems and Pitfalls in Budget Management,” discusses those issues in detail and suggests how to confront problems and avoid pitfalls. Changes in Chapter Six speak to the sharing or pooling of resources by institutions to handle some expenses, the challenges of tuition discounting, and the

unfortunate tendency of some to postpone problems rather than address them in a timely fashion.

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. Chapter Seven has been revised to include discussion of whether resource scarcity is a transient condition or sustained public policy. 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.

## **Acknowledgements**

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 Seacrest, the late Bill Fischer, Gene Sunshine, Sheila Driscoll, and Eric Wachtel. She would also like to thank her family and friends for their support and her colleague George McClellan for his quality contributions to the volume.

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 Vicky Carwein for her 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 and many others.

Our purpose in bringing forward the first version was to create a book that instructs, informs, and aids our colleagues who are facing fiscal management as part of their responsibilities. We are grateful that the feedback on that effort has been so positive, and we are hopeful this revision helps to further those same goals.

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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, 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 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 *Student Affairs Practitioner's Guide to Governance* with G. McClellan (under contract), *Making Change Happen in Student Affairs: Challenges and Strategies* with G. McClellan and A. Sandeen (2014), *The Handbook of Student Affairs Administration* (2000 with M. Desler; 1993), co-editor of *New Futures for Student Affairs* with M. Lee Upcraft (1990), the editor of *Student Services 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.

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McClellan has served in a variety of leadership positions in student affairs. He was a member of the editorial board of both the *Journal of College Student Development* and the *Journal of College and Character*. He served as 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 also 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 is the (co)author or (co)editor of numerous books, chapters, and articles on student affairs and higher education. These include *Student Affairs Practitioner's Guide to Governance* with M. Barr (under contract), *A Good Job: Campus Employment as High Impact Practice* with K. Creager and M. Savoca (under contract),

*The Handbook for Student Affairs Administration* with J. Stringer (2009, 2016), *Making Change Happen in Student Affairs: Challenges and Strategies* with M. Barr and A. Sandeen (2014), *The Handbook for College Athletics and Recreation Administration* with C. King and D. Rockey, Jr. (2012), *Stepping Up and Stepping Out: Helping Students Transition of the Real World* with J. Parker (2012), *In Search of Safer Communities: Emerging Practices for Student Affairs in Addressing Campus Violence* with M. Jablonski, E. Zdziarski, D. Ambler, R. Barnett-Terry, et al., and J. Kindle (New Directions in Student Services, 2008), *Gambling on Campus* with T. Hardy and J. Caswell (New Directions in Student Services, 2006), and *Serving Native American Students* with M. Fox and S. Lowe (New Directions in Student Services, 2005).

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 and the Annuet Coeptis Senior Scholar Award in 2017. McClellan was recognized by the NASPA Foundation as a Pillar of the Profession in 2010.

McClellan received his Ph.D. in higher education from the University of Arizona (2003). Both his M.S.Ed. in higher education (1998) and B.A. in English and American literature (1982) were earned from Northwestern University.

# Budgets and Financial Management in Higher Education



# 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