Budgets in Higher Education -- The Keys to Successful Financial Management

There is an abundance of information that is necessary to successfully prepare and ultimately manage university budgets. Each college may approach the process differently but with the proper questions asked, appropriate forecasting completed, and institutional support provided the process is manageable. Our expert this month, George S. McClellan, Ph.D., Vice Chancellor for Student Affairs and Enrollment at Indiana University - Purdue University Fort Wayne discusses the intricacies of the budgeting process.

Andrew Hibel, HigherEdJobs: *Dr. McClellan, you are the Vice Chancellor for Student Affairs and Enrollment Management at Indiana University - Purdue University Fort Wayne (IPFW). Will you briefly explain your career path?*

George McClellan, Ph.D., Indiana University- Purdue University Fort Wayne: Sure. I have been in student affairs for about 30 years now, having served at Northwestern University, University of Arizona, Dickinson State University, and now IPFW. I started out in residential life serving graduate and professional students and held a few other types of positions before my first role as a senior student affairs officer. My bachelor's and master's are from Northwestern, and my doctorate is from University of Arizona.

Hibel: *There are commonly two camps regarding budgets on campus--decentralized and centralized. What are your opinions on the advantages of disadvantages of each?*

McClellan: The centralized approach offers a couple of advantages - greater likelihood of congruence between budget and institutional priorities, less tension associated with the budget process, and a simpler process. This approach can be particularly helpful if the institution is under financial pressure or if there isn't a strong common vision. On the other hand, the decentralized process can be more empowering for unit heads and other members of the campus community, engages the creativity of more members of that community, and is more likely to garner buy in and a sense of ownership when it comes to the budget. It has drawbacks too. There is an increased likelihood for unhealthy competition around the budget, disconnect between resources and priorities, and takes longer to move through the planning process. You can also wind up with hurt feelings or disappointment when budget priorities that emerge from the ground up get reduced or cut in the final rounds of decision making at the executive level.

Hibel: *How does budget planning and implementation differ for private and public universities*

as well as profit versus not-for-profit institutions?

McClellan: Great question. Whether public, private, for-profit, or not-for-profit, revenue from tuition and fees really drives the budget. Beyond that, on the revenue side, the most obvious difference is that public institutions receive state appropriations. Recently, as states have been under their own financial pressures, state funding as a portion of total revenue for public schools has declined. It's not uncommon now to hear such institutions describe themselves as state assisted or state supported as opposed to state funded. Of course, state money also comes with state control and regulations. Private institutions can be more flexible regarding their budgeting and financial policies. Another difference is that private institutions often have larger endowment funds and so throw off more revenue from investments for their operations than do their public counterparts. For profits really aren't in the endowment game. On the expense side, the major items are the same - labor (including salaries and benefits), facilities, and technology. Of course the for-profits have net revenue targets whereas the not-for-profits take their budget surpluses into reserves or expand their programs and services.

Hibel: *For most institutions, the next budget year will begin in July 2014. What budget issues may be unique this year for departments?*

McClellan: Over the past several years the cost of health care benefits have really had an impact on higher education. That seems likely to continue to be the case. I've seen some reports indicating that we may see a wave of retirements as folks who held off during the recent recession decide they can retire now and as a generational wave moves through the system. This means there will be replacement costs and also upward pressure on salaries to remedy salary compression. It seems like we may see some easing in energy prices as alternative fuels and greater energy efficiencies come online. Technology is likely to continue to be a cost driver given our seeming insatiable appetite for software, hardware, and apps. We also have pressures on the revenue side as states move to restrict tuition, families seek out less expensive pathways to degree completion, and public policy initiatives in the areas of dual credit (high school for college credit) on the front end and credit hour caps on the back end result in a declining number of credit hours. We can't keep doing more with less. We are going to have to do better with less and be able to make our case for what how we do is worth the price we charge. We also need to be clear about what we can't do if we don't have the funding. We need to learn to let go of things that don't make a difference or don't make enough of a difference, too. We start programs and services and never let them go.

Hibel: *You mentioned health care costs. On January 1, 2014, many provisions of the Affordable Care Act (ACA or Obamacare) come into effect, but the often discussed employer mandate does not. There has been some discussion how this might affect adjunct hiring. Have universities been budget planning for implementation of this part of the law and if so how?*

McClellan: My sense is that colleges and universities are certainly mindful of the act, but frankly the vast majority of them are in no financial position to make major shifts at this time. They are in a "wait and see" mode.

Hibel: *In your book, Budgets and Financial Management in Higher Education, you state, "The reality of higher education budgeting is that there are typically far more programs and services to advance the institutional mission than there are dollars to fund such ideas." How is this issue reconciled?*

McClellan: It helps to have a mission that has wide campus support coupled with a strategic plan that is tightly tied to that mission and that was developed through an inclusive process of the community. This facilitates prioritization of resources and minimizes the likelihood of disruptive tension born of the budget process. It's also really helpful for a unit to keep an eye on their programs and services and cut what isn't working (or not working well enough for the investment of resources) and look to spin off successful programs to partners with more resources or to get support for those success programs from other sources (folks like to invest in winners). This can allow a unit to use internal reallocation as a strategy to develop "new" dollars. It can also be a helpful negotiating tool when something has to be cut or not funded as you can point out what you have already given up as part of the negotiation process. One final tip, be sure you can articulate what you won't be able to do if funding is not available for a particular program or service. Whose ox will be gored?

Hibel: *Also in your book, you discuss many different budget models from formula budgeting--state allocated money to public universities to zero-based budgeting--each item must be justified during budget creation to performance based budgeting-resources allocated based on achievement of criteria. Please describe these approaches and when each is most optimal?*

McClellan: You've done a nice job of providing a brief but concise explanation for each of the three you mentioned, and there are several more common models. One of my favorite parts of our book (my co-author is Peggy Barr) is the chart that we developed listing the various models and their strengths and weaknesses. Let me share just a few words about some of the more common models. Both formula budgeting and performance-based budgeting are becoming more common and much more discussed in higher ed right now. On the surface it's tempting to see these models as very attractive, and there is a lot to recommend both of them. The problem, however, comes when the variables in the formula or the metrics of performance are defined. For example, if state funding formulas are heavily weighted in the areas of degree completion and research funding, regional public universities may be at a substantial disadvantage. With regard to performance metrics, there can be a struggle both in terms of identifying what constitutes performance (e.g., if a research institution prioritizes technology transfer then humanities may be slighted) and in figuring out how to assure that units not directly involved in the performance being measured are to be funded. If the performance of an academic unit is measured by number of majors or credit hours, how do you value admissions which no doubt had something to do with the academic department's success? The incremental model is attractive to some because it's really simple and very transparent, but it can lead to simply replicating over or under allocation of resources. On the other hand, zero based budgeting which requires budgets to be justified annually can help minimize the likelihood of such repetitive error, but it is an incredibly time consuming process. This brings me to my final point on your question. Relatively few institutions adopt an absolutely pure version of any given budget model. They typically adopt some sort of hybrid that works in the unique context of their institution.

Hibel: *A large part of budgeting for upcoming fiscal cycles involves forecasting. What are your suggestions on successful forecasting?*

McClellan: What's the old saying? The best indicator of future performance is past performance. Peggy and I are big believers in using several years worth of data (no less than three, no more than five) when forecasting revenues or expenses. You can look at the trends, give some thought to what might be different (if anything) in the year ahead, and make adjustments to the forecast accordingly. Another tip is to be conservative when it comes to both revenue and expense forecasts. Shade your prediction for revenue to the low side and for expenses to the high side. When the son of one of my friends was little and asked if he were hungry or tired, he would cutely answer "just a little bit, not a lot." He'd be a great budget forecaster.

Hibel: *You indicate that higher education budgets are commonly organized either as* functional or *natural*. What are the differences and are there particular cases where one approach would be more advantageous?

McClellan: This pretty simple really, but it's something most folks aren't aware of unless they have been involved in budgeting at both the unit and institutional level. Natural reporting organizes budgets by broad type whereas functional reporting organizes them by purpose. If folks are familiar with budgets, they are most often familiar with natural budgets. You see items like salaries, travel, computers, miscellaneous income, etc. Budgets used for macro reporting or planning are more often expressed in broad functional terms like instruction, administration, or research

Hibel: *What types of questions should a new professional hired into the role as budget manager for a university be asking or be concerned with when starting his or her position?*

McClellan: Understand both the sources of revenue and types of expenses for your unit. What does the budget planning and management cycle look like at your institution? Who are the players and partners? What are the budgeting practices (centralized or decentralized, which model, what do the formats of the budget reports look like and mean)? Who ought to be included in the budget development process? As for tips, remember that integrity will carry you a long way. Be straightforward. Be transparent. Don't play games. Also, as Ben Franklin said, small leaks sink big ships. Keep an eye on the details. Scrub the budget for little wasteful items. Collectively you can build up a nice pot of "new" dollars. Pay attention to replacement cycles for things like computers, furniture, etc. Be very mindful of expenses that can come back to haunt you (e.g., excessive travel, technology as it is never as simple or as cheap as you are first led to believe, or entertainment).

Hibel: *You have co-authored several books on various topics in higher education. For higher education professionals who are considering writing a book, what is your advice on how to begin the process?*

McClellan: Having the opportunity to be published is one of the real blessings of my career. I'll share a few tips for those who might be interested in writing. It can be difficult to get a publisher to take a chance on you if you have never been published. Try to identify an opportunity to co-

author with someone a publisher already knows and respects. For me, that was Peggy Barr. She very generously allowed me to write with her, and I'll always be grateful for that. Next, know the market of what is out there and which publishers like to do what sort of books. If you are proposing a book, you need to know what else is out there on that topic. If you think there is nothing out there, be able to explain why you think there ought to be (and who will buy it if there is). Jossey-Bass prefers a more practical approach. Routledge does more theoretical things. Keep in mind a good prospectus is more than half the battle in getting a publisher to give your project serious consideration. Be sure you have the support of your supervisor. I am always clear when I go for positions that I see my scholarship not as something additional to my professional practice but integral to it. Finally, avail yourself of readers. Don't ask a publisher to be your first editor.

Hibel: *To round out our interview, one final question regarding career development. When interviewing candidates, what is your favorite interview question and why?*

McClellan: I'll share two. What would your critics say are your greatest strengths and your supporters say are your biggest opportunities for growth? What advice do you have for us at IPFW about how we could help you succeed in this position and in your professional goals?
All opinions expressed by Dr. George McClellan are his own and do not necessarily reflect those of HigherEdJobs.

https://www.higheredjobs.com/higheredcareers/interviews.cfm?ID=445