



**College and University Professional
Association for Human Resources**

You *Can* Get There From Here: The Road to Downsizing in Higher Education

Second Edition

Revised and updated by Barbara Butterfield with Susan Wolfe

This edition made possible through the generous support of



© 2008 College and University Professional Association for Human Resources
First edition published in 1994

Chapter 2

The Budget: Reading the Roadmap

As they consider their budget-reduction imperative, many administrators think exclusively of their own department's budget or, more broadly, of the institution's operating budget. However, the budget they really should take note of is the institution's overall, consolidated budget, for it provides a picture of all the institution's expenditures and offers the ability to track areas of growth or shrinkage over the long term.

An overall budget in higher education might include income from several sources. It is important that HR executives understand how each contributes as well as which are growing or shrinking. These sources include but are not limited to:

- Tuition,
- Financial aid (externally funded),
- Student housing and fees,
- State funding,
- Grants and contracts,
- Indirect cost recovery of some overhead expenses resulting from government supported research,
- Proceeds from patents and licenses,
- Income from endowment ,
- Unrestricted gifts,
- Restricted or designated gifts, and
- Auxiliary enterprises.

The budget picture may reveal the need to increase contributions for operating purposes, but it may fail to tie specific expenses to particular sources of funds. For example, transfers from accounts in the overall budget to accounts in the operating budget often show up simply as additional income. In other words, an institution sometimes cannot track the growth of expenses when money is borrowed from another account within the overall budget. In addition, the operating budget does not include the capital budget. For many larger institutions, the campus is in a state of constant construction, so the capital budget is an important factor in considering the whole. The challenge with the capital budget is that it is often not accompanied by a full accounting of operating and program funds that will be required to support the facility.

By far the largest cost that colleges and universities face — roughly two thirds of their expenditures — is total compensation: salary and benefits. Benefits usually add 30 percent or more to the salary package of each employee.

Financial aid can represent a substantial percentage of the operating budget, particularly at private institutions. Under the incremental budgeting process outlined below, financial aid is considered a discount to the price versus the expense of an individual education: administrators usually gather as much financial aid support as they can from outside the institution and then fund the remainder of the tuition expense through internal financial aid and student work and assistantship opportunities.

To ensure that budgets are managed well, significant planning is necessary. There are several methods of resource allocation. They include:

- *Incremental budgeting.* This process adopts the previous year's base budget plus inflation as the next year's budget.
- *Formula-driven budgeting.* This process assumes that the operating budget equals a certain number of dollars per student. This ratio determines the number of faculty and staff who can be funded.
- *Zero-base budgeting.* This approach requires each administrative and academic unit to start from scratch annually, rethinking every expenditure, re-examining rationales and looking again at budget request justifications. It forces department administrators to define criteria for baseline funding. While not recommended as an ongoing budget process, zero-base budgeting is a good way for new leaders and middle management to gain a thorough

understanding of the organization. Its utility in downsizing seems readily apparent: it provides understanding of each department's mandatory, core and discretionary commitments and forces prioritization.

- *Programmatic budgeting.* This approach requires administrators to identify expenses for each program, including overhead, salaries and direct program costs. It offers an incentive to managing space when the discipline requires that departments must account for their facility cost. Programmatic budgeting asks that organizational leaders annually prioritize programs under their direction including investments in new initiatives and, if necessary, elimination of services that are no longer central to unit success.

A sample Programmatic Budget Template for the Human Resources Administrative Unit

Strategy and Management	Consulting Services	Strategic Staffing	Total Compensation	Organization Environment	Transaction Management	HR Academy
<ul style="list-style-type: none"> • HR Strategy • HR Initiatives • Strategic Plan • HR Metrics • Budget • Communication • Advisory Groups 	HR Services to: <ul style="list-style-type: none"> • Academic • Academic Services • Student • Health System • Business Administration • Executive 	<ul style="list-style-type: none"> • Staff Planning • Recruiting • Hiring • Temporary • Retention • Staff Development 	<ul style="list-style-type: none"> • Compensation • Pay Equity • Classification • Policy • Benefits • Design • Vendor Management 	<ul style="list-style-type: none"> • Academic Services • Organizational Effectiveness • Diversity • Work/Life Balance • Recognition • Labor Relations • HR Policy • Dispute Resolution 	<ul style="list-style-type: none"> • Shared Services • Systems/Process • Data Consulting • Collection • Reporting • Analysis • Call Center 	HR Education <ul style="list-style-type: none"> • Design • Development • Delivery
Mandatory, Core or Proficient:	Mandatory, Core or Proficient:	Mandatory, Core or Proficient:	Mandatory, Core or Proficient:	Mandatory, Core or Proficient:	Mandatory, Core or Proficient:	Mandatory, Core or Proficient:
# FTE	# FTE	# FTE	# FTE	# FTE	# FTE	# FTE
\$ Budget	\$ Budget	\$ Budget	\$ Budget	\$ Budget	\$ Budget	\$ Budget

Source: Sibson Consulting

Use of Debt

Prudent campus budget officers use debt to finance fee-for-service auxiliaries that have enough cash flow to service the debt. These functions typically include publications services, in-house temporary services, bookstores, food service and occasionally, technical services. Dormitory construction is often funded by debt because room and board payments can be used to pay interest on building loans.

Beyond these examples, many conservative campus budget officials do not recommend borrowing to build out the campus. Some institutions place a conservative percent cap on the amount of operating budget that can be used to pay interest on building loans, including limiting how much debt service can rise each year. In establishing such policies, institutions have three additional priorities in mind:

1. Maintaining a positive bond rating,
2. Allotting only a fraction of operating budget to debt service, and
3. Limiting the annual growth of debt service.

Forecasting and Sensitivity Ratios

Even with such safeguards in place to guard against paying high interest rates, colleges and universities are wise to forecast their budgets three to five years ahead and to calculate relationships between particular income lines and associated expense lines. For example, a projected tuition increase raises the level of financial aid needed. By calculating the relationship between tuition and financial aid, an institution can forecast how much more money it will have to find in financial aid to support the same number of students. Similarly, staff benefits models can be helpful in forecasting and controlling rising costs of health insurance, Social Security and tuition remission.

Even if the forecast paints a gloomy picture, it provides a useful tool to assist administrators in adjusting financial and programmatic plans to account for projected deficits as well as initiatives that represent growth. Given a picture of where they would be if they took no action at all, administrators can then determine both remedial and investment courses. Understanding how budgets operate and the relationships between the numbers that compose them will go a long way to help administrators in every area figure out how to streamline their units and, ultimately, how to restructure their departments, their schools and the institution at large.

No matter what the outlook, it is clear that every college and university needs to calculate the relationships between major expense items, including dollars per percentage point of increased tuition and dollars per percentage point of increased salary. HR executives, in particular, must know the dollar cost per employee segment for every one percent of salary increase for that group across the organization. There are several budget-reduction potholes in which it is easy to fall. They include freezing all positions and broadly cancelling annual salary increase programs. These stopgap measures result in unfilled key positions, double loads for remaining faculty and staff and years of trying to catch up to peers that have taken a more rigorous course. As for an analogy fitting the “You Can Get There” theme, it is like putting watered-down gas in a high-performance car and expecting winning results.