

# Budgets and Financial Management

## IN HIGHER EDUCATION

Margaret J. Barr  
George S. McClellan



# Budgets and Financial Management in Higher Education

Margaret J. Barr,  
McClellan



JOSSEY-BASS

A Wiley Imprint

[www.josseybass.com](http://www.josseybass.com)

Copyright © 2011 by John Wiley & Sons, Inc. All rights reserved.

Published by Jossey-Bass

A Wiley Imprint

989 Market Street, San Francisco, CA 94103-1741—[www.josseybass.com](http://www.josseybass.com)

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, 978-750-8400, fax 978-646-8600, or on the Web at [www.copyright.com](http://www.copyright.com). Requests to the publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, 201-748-6011, fax 201-748-6008, or online at [www.wiley.com/go/permissions](http://www.wiley.com/go/permissions).

Readers should be aware that Internet Web sites offered as citations and/or sources for further information may have changed or disappeared between the time this was written and when it is read.

**Limit of Liability/Disclaimer of Warranty:** While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

Jossey-Bass books and products are available through most bookstores. To contact Jossey-Bass directly call our Customer Care Department within the U.S. at 800-956-7739, outside the U.S. at 317-572-3986, or fax 317-572-4002.

Jossey-Bass also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic books.

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

Barr, Margaret J.

Budgets and financial management in higher education / Margaret J. Barr,

George S. McClellan.

p. cm. — (The Jossey-Bass higher and adult education series)

Includes bibliographical references and index.

ISBN 978-0-470-61620-8 (hardback); ISBN 978-0-470-92312-2 (ebk);

ISBN 978-0-470-92313-9 (ebk); ISBN 978-0-470-92315-3 (ebk)

1. Education, Higher—United States—Finance. 2. Universities and colleges—United States—Business management. I. McClellan, George S. II. Title.

LB2342.B3245 2011

378.1'06—dc22

2010037992

Printed in the United States of America

FIRST EDITION

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

# Budgets and Financial Management in Higher Education

The Jossey-Bass  
Higher and Adult Education Series

# 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.

## Acknowledgments

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



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 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.

*Margaret J. Barr*  
Evanston, Illinois  
*George S. McClellan*  
Fort Wayne, Indiana

## 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.

# Contents

<i>Figures, Tables, and Exhibits</i>	<i>ix</i>
<i>Preface</i>	<i>xi</i>
<i>About the Authors</i>	<i>xv</i>
1. The Fiscal Context and the Role of the Budget Manager	1
2. Primary Elements of the Budget: Revenue and Expenses	29
3. Understanding Budgets	55
4. Management of the Budget Cycle	87
5. Understanding Auxiliary and Capital Budgets	119
6. Problems and Pitfalls in Budget Management	139
7. Managing Budget Fluctuations	163
Glossary of Terms	191
Index	197

# Figures, Tables, and Exhibits

## Figures

Figure 1.1. Relationships in Financing of Higher Education	14
Figure 1.2. Distribution of Revenues by Source in Higher Education	15
Figure 4.1. A Typical Budget Unit Cycle	90

## Tables

Table 3.1. Functional Expression of Revenues for Unit in Alpha University Hospital	66
Table 3.2. Natural Expression of Expenses for Administrative Unit and Academic Unit in Alpha University	67
Table 3.3. Impact of Various Funding Formulas on Alpha University	69
Table 3.4. Strengths and Limitations of Budget Models	78
Table 4.1. Typical Institutional and Unit Budget Schedules	95
Table 5.1. Alpha University Continuing Education Revenue from Tuition and Fees	121

Table 5.2. Alpha University Continuing Education Revenue from Tuition and Fees Accounting for Response to Local Manufacturer's Decision	121
Table 5.3. Alpha University Continuing Education Revenue from Tuition and Fees Accounting for Increased Local Competition	122
Table 5.4. Alpha University Continuing Education Revenue from Tuition and Fees Reflecting Two New Initiatives	123
Table 5.5. Capital Budget for Alpha University Project	127
Table 5.6. Moody's and S&P Ratings	132

## Exhibits

Exhibit 4.1. Typical Additional Unit Budget Guidelines	102
Exhibit 4.2. Six Pitfalls in Preparing Budget Documents	108
Exhibit 6.1. Avoiding Pitfalls in Budget Management	154

# 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