The Canterbury Tales

By Geoffrey Chaucer
Finance and Budgeting in the Higher Education, with an Emphasis on Community Colleges

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Funding Paradigm

Is shifting from Government to Individuals

- 20th Century Funding—subsidy to provide low-cost higher education
- Current state and national support eroding
- New challenges to fund growing enrollments
  - growth in traditional-age population
  - open doors to greater portion of population and more retraining
  - tighten economic belt—emphasis on improving efficiency
  - unbridled university tuition
Around the Nation-Florida

- 7.1% increase for support of the state-wide university system
- 9.7% increase for community colleges
- 18.3% state spending on university construction
- 14.2% more for the maintenance and repair of university facilities

Legislators agreed to one of the biggest changes in higher education financing in decades:

- first state to provide sizable funds for higher education directly to students through a voucher like program
- July 2005, the General Assembly is to set aside money for the fund, which would then pay stipends to state residents who enroll in undergraduate programs at Colorado public colleges.
- low-income residents who enroll at some private colleges in the state could be eligible for half of the amount that public-college students receive.
- to participate both public and private institutions would have to agree to improving graduation and retention rates

Massachusetts

- 9.5% increase in appropriations for higher education, much of which will go to pay for collective bargaining agreements

- No tuition increase

- Increase in fees but extent of increase not yet determined
  - Fees constitute the bulk of student costs, being twice that of tuition

- Possible $20 million for building maintenance

- 0.1% decrease in student aid over previous year
Illinois

- 0.2% reduction on spending on public universities
- 16% increase by universities for incoming freshmen
- 2% increase in appropriations for community colleges
- Spending on student aid will remain flat
- Delayed approval to spend on college construction until fall

Financing Models

- No single model for community colleges
- Budgets approved by:
  - Legislatures
  - Local community college boards
  - State postsecondary boards,
  - State boards of education, or
  - State community college boards
- Performance-funding models—funding desired outcomes or accomplishments
Funding and Control

- **Influence of State Control on Community Colleges**
  - 16% receive 25.9% or less from state
  - 7% receive 86-100% from state

- **Variety of Local Control Among States**
  - 47% receive 10.9% or less from local sources
  - 9% receive 51% or greater from local sources
Community College Funding

- **Texas Funding**
  - State funds and local funds are a main source of revenue for Texas’ public community colleges.
  - State funds are appropriated by the legislature based upon enrollments on the official reporting date of the base year.
  - Insurance is also appropriated to each community college based upon the number of filled positions in each even numbered fiscal year…this may change in current legislative session.
  - Local Board of Trustees raise local funds through tuition and fees and property taxes.
  - Some community colleges are also eligible for dramatic growth funding.
Examples of Funding in Other States

- Oklahoma funds community colleges from state appropriated funds and student fees and tuition
- Georgia funds community colleges as part of the state university system
- Arkansas has local boards, mostly appointed by the governor, but also are state agencies
State Shortfalls Projected Throughout the Decade

Higher Ed Budgets Likely to Feel Continued Squeeze

• Higher education’s share of the overall pie continues to get smaller, both nationally and in most states

• Higher education receives a smaller share of a smaller pie, colleges and universities and students who enroll will find themselves in difficult financial positions

Source: The National Center for Public Policy and Higher Education; February 2003
A Brighter Financial Picture for Colleges

- There were some encouraging signs for higher education. Of 44 states that have completed work on their 2004-05 budgets, only seven states froze or cut higher education spending. By comparison about half the states reduced college funding in 2003-04. Of the 37 states that raised their higher education budgets, 28 increased them by more than 2%
- The new dollars barely made up for budget cuts from previous years and in several places they were quickly eaten up by rising health insurance premiums

“The College Cost Crisis”

House GOP Education Committee Leaders Release
Report on College Cost Crisis

Key Findings

- America’s higher education system is in crisis due to exploding college costs
- It’s not just the economy
- In both good and bad economic times, institutions of higher education have continued to disproportionately increase prices for students and families
- Americans believe institutions of higher learning are not accountable enough to parents, students, and taxpayers, the consumers of higher education
- Americans do not believe a dramatic increase in federal funding for higher education will solve the college cost crisis

“The College Cost Crisis”
House GOP Education Committee Leaders Release Report on College Cost Crisis

- Key Findings
  - Americans believe wasteful spending by college and university management is the number-one reason for skyrocketing college costs
  - The amount of information available to consumers about tuition increases is inadequate, inhibiting the ability of consumers to “comparison shop” and hold institutions accountable for tuition hikes
  - While significant tuition increases are the norm, they are not unavoidable

Increasing Price

- much of the discussion about cost relates instead to PRICE
Tuition Increases as Compared to Inflation

Average College Prices 2004-2005

- Four year private institutions tuition and fees $20,082 up 6% from last year
- Four year public institutions tuition and fees $5,132 up 10.5% from last year
- Two-year public institutions tuition and fees $2,075 up 8.7% from last year
  - nationally 44% of all students attend two-year colleges
- Record $122 billion in financial aid is available to students and their families, an increase of 11% over last year

Soaring Tuition

• “Texas’ public universities have no choice but to increase tuition to meet the many demands being placed upon them. But they will need to do so in a way that doesn’t make a college degree any less affordable or accessible for the state’s increasingly diverse population.”

• “On one hand, Texas’ public universities will need to be careful not to price students out of a college education. Yet they also will have more resources to strive for greatness.”

Source: Dallas Morning News, October 29, 2003
Increasing Costs

• and a decline in the willingness (or ability) of government to pay the rest of the bills
A Decline in the Willingness for Government to Pay

- means the direct consumer pays more
- means college is moving from a societal good to a personal good
Texas College and University Budgets
Budget Defined

The budget represents the real purpose of the institution quantified in dollars!!
Budget Purposes

- Support programs and services
- Establish control limits
- Provide tool for long range financial planning
- Provide tool for advocacy, internal and external
- Provide tool for performance evaluation of staff and the institution
Community College Revenue

- Tuition and Fees
- State Appropriations
- Local Taxes
- Federal Grants & Contracts
- State Grants & Contracts
- Auxiliary Revenues
- Other
Unrestricted and Restricted Revenue Comparisons 2003

Source: US Department of Education
Source: IPEDS & EPCC Finance Office
Source: DCCCD Schedule of Current Funds Expenses by Individual Campus and Central Administrative Function, DCCCD Current Year Report FY 2001 - Current Revenues by Source
Expenditures

- Instruction
- Public Service
- Academic Support
- Student Services
- Institutional Support
- Physical Plant
- Scholarships
- Auxiliaries
Expenditure Comparisons 2003

Source: US Department of Education
Source: IPEDS & EPCC Finance Office
Source: DCCCD Schedule of Current Funds Expenses by Individual Campus and Central Administrative Function, DCCCD Current Year Report FY 2002 - Current Revenues by Source
Classification of Resources

- Reasons for Classifications
  - fund accounting classifies all resources into funds according to specific limitations placed on their use by the resource providers
  - classification recognizes the stewardship responsibility inherent in accepting restricted resources from external parties
  - institutions have many accounts which must be monitored internally by institution budget heads and supervisory groups
Fund Groups for Community Colleges

- Current funds
  - restricted
  - unrestricted
  - transfers
- Loan funds
- Endowment and similar funds
- Annuity and life income funds
- Agency funds
- Plant funds
- External financial reporting
  - (radically different)
A key characteristic of an operating budget as a management system is its strong tie to accounting systems and periods of time. One year is typical for an operating budget.
Operating Budget

- Day to day operations
- Control of financial resources
- Manage expectations and behaviors
- Funding for continuing commitments
- Funding for prior year commitments
- Funding for new programs and staffing
Budget Guidelines

- Accounting systems and financial records
- Budget: annual institutional budget...
- Budget process policy
- Budget administration policy
- Purchasing policy
- Purchasing ethics
- Annual independent audit
Budget Choices

- Centralized or decentralized
- Setting authority
- Open-ended requests
- Recommended requests
- Mandatory requests
- Integration of budget and other management processes
Budget Considerations

- Insufficient resources

- Hidden costs with long-term obligations
  - addition of new facilities
  - new degree programs
  - revision of curricula

- Relationship between capital and operating budgets
Impacts to Budget

- Enrollment fluctuations
- Revenue fluctuations
- Emergencies
- Unforeseen opportunities
- Large payers
Economic and Political Climate

- Cost containment major objective

- Significant long-term pressures:
  - personnel costs (including fringes)
  - plant maintenance
  - prices of purchased goods and services
  - compliance with federal regulations and mandated social programs
  - reduced federal aid and state support
Budget Maxims

- Budget/financial statement
- Open and shared information
- Accountability
- Budget games
- Responsibility commensurate with authority
- Decentralization proportional to size and complexity
- Integration with everything
Implementation Issues

- Individual/group decisions
- Consensus and collegiality
- Campus climate/”culture”
- Various points of view
- Cross-boundary decision making
- Innovative leadership
- Communication
- Decision support tools
Budget Evaluation

- Process evaluation
- Budget goals
- Planning goals
- Management tools
Budget Report Card

- Annual Financial Statement

- Academic Plan and Academic Vitality
  - ultimate record of efficacy of budget is whether academic plan and academic vitality of institution are advanced

- Use of Resources
  - budgets codify resource limitations.
Capital Budgeting

- Planning for expenditures too large to be part of the operating budget
  - new construction
  - renovations to existing buildings
  - integration with master plan
Capital budget has four major purposes:

- Facilitate institutional growth
- Permit systematic exploration of alternatives
- Manage balance sheets
- Communicate the institution’s options to the Board of Trustees
Capital Budgeting Process

- Analyze needs and create master plan
- Create timeline for projects
- Calculate costs for capital projects
- Evaluate and match financing
- Test feasibility
- Evaluate risks
- Revise scenario
Capital Budgeting

Budget Axioms

- Poorly planned capital projects can lead to severe financial problems for the institution during and after the project.

- A mistake in capital budgeting can be more devastating than a mistake in operational budgeting.
Integration of Operating/Capital Budget

- Master planning
- Contingencies
- Flexibility
- Participation
- Surprises
- Stability, growth
- Balanced budget
Key Capital Issues

- Depreciation accounting
- GASB 34/35
- Use of reserves, endowment, gifts or debt
- Debt funding options
- Matched or “Lumped” financing
- Modularization of project
- Contingent start dates
- Crisis funding
Link Planning

And

Budgeting
Planning/Budgeting Links

- The planning process enables the institution to:
  - understand external and internal conditions
  - look broadly at internal programs
  - consider other options
  - forecast financial and other effects of different courses of action
  - make choices to reach goals
Planning/Budgeting Integration

Major Factors

- leadership support
- constituent engagement
- positive communication
- integration of cultures
- institutional research
If planning is not linked to budgeting, usefulness must be challenged

Results in institutional calls for budget changes

Results in targeting certain academic and nonacademic programs

Planning and budgeting are dynamic

Plans mediate environments and intentions, budgets enable plans; both must be adaptable
Planning/Budgeting Relationships

- Academic program planning
- Relationship with constituents
- Enrollment planning management
- Student affairs changes
- Technology changes
- Capital planning
Planning/Budgeting Relationships

- Debt and Capitalization Policies
- Human Resources
- Grants/contracts
- Pricing and financial aid strategies
- Endowment investment and pay-out policy
- Service provider relations and joint ventures
Assessment

- The teaching, research, or public service experience at an academic institution, is ultimately measured against the stated and distinct goals of that institution.

- Assessment measures are necessary both to respond to public questioning and to help shape future planning directions.

- Assessment is clearly the kind of accountability that boards, legislators, and the public insist is necessary to measure higher education's ultimate education, knowledge development, and civic contribution and value.