Adaptive Budgeting

PETER A. FACIONE

TIMES ARE TOUGH, very tough. The great majority of institutions, public and private, are looking toward 2009–10 and beyond, in anticipation of the deepest budget cuts in more than a generation—and certainly deeper than at any time in the memory of most current campus leaders. Cuts of 5 percent or 7 percent would be welcomed by institutions that have been asked to plan for 12 percent, 17 percent, 25 percent, and 36 percent cuts next year.

In the current recession, even financially well-positioned independents with substantial numbers of qualified applicants for 2009–10 are canceling searches and freezing budgets out of concern for the potential financial aid cost associated with bringing in a full class next fall. Much more troubling is the plight of the many public institutions that must seriously consider laying off tenured faculty and closing programs due to the financial exigencies resulting from mandated double-digit budget cuts. As bad as this may be, these institutions can still survive if they take swift and strong emergency action. The most difficult situations are those involving institutions that began 2008–9 with soft enrollments, depleted endowments, excessive discount rates, heavy debt-service burdens, operating deficits, and weak balance sheets. For these financially fragile institutions, the recession may be too much. Even if they sell off their real estate and lay off massive numbers of staff and faculty, it may still be impossible to avoid permanent closure.

Straight talk
It is time for some straight talk—starting with the realization that institutions that cannot adapt, or that choose not to adapt, are going to fail. More than four thousand institutions currently crowd the higher education marketplace in the United States, and some have multiple campuses across cities, regions, and states. Some operate sophisticated and effective distance learning networks. Some use business models that call for harvesting the most lucrative graduate or professional student populations but that do not require the overhead of facilities and staffing generally associated with undergraduate education. The current recession has caused many of the nation’s largest retailers, banks, airlines, manufacturers, and brokerage houses to fail. Millions of Americans have lost their jobs and their homes. Why should we think colleges and universities, and those employed by them, would be exempt from the same fate? The market sorts itself out at times like these. Industries realign.

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The first message, right after “times are very tough,” has to be that competition is going to become fierce. It would be a major mistake for leaders to believe that their main worries are the inwardly focused challenges and politics of negotiating the campus constituency groups through an unpleasant budget realignment. The institutions that survive will be those that have built collaborations among internal constituencies in order to compete externally for students, faculty talent, and financial resources. While others flail against internal divisions and interest groups, these institutions will garner opportunities to gain market share and to attract new talent.

The second message is that risk and uncertainty abound, and they can result in paralyzing fear, anger, and feelings of betrayal on the part of students, staff, faculty, and administrators. The truth is that virtually nobody did anything wrong. There has been no great industry-wide deceit equivalent to the shenanigans in the mortgage industry. Although most colleges and universities do not deserve to fail financially, some will not be able to avoid failure no matter how mightily they strive to survive. But the fate of others may yet be in their own hands.

Higher education is part of the larger economic system. There will be casualties in higher education, just as private-sector businesses will fail and other worthy nonprofits will go broke. If state tax revenues fall by massive percentages, and given that the priorities of the states are things like public safety, unemployment support, transportation, basic services, and a balanced budget, then something will have to be cut. Often, that something will be support for higher education. Many policymakers regard higher education as both a public good and a private good. Insofar as it is the latter, it is reasonable to reduce or defer support for higher education in bad times and to shift more of its cost onto the individual beneficiaries—the students. Insofar as it is the former, it is reasonable to support higher education as an economic engine and source of business, medical, legal, and technical progress. But much of that can wait, many would say, until tax revenues rebound.

If you think the current situation is like being at sea in a sailboat during a gale, you are right. But you are not without tools with which to navigate these troubled waters. After suggesting some first principles for approaching budgeting in tough times, I will offer a long list of suggestions for reducing expenses, expanding revenues, supporting students, and minimizing job losses.

A crisis is a terrible thing to waste

First Principles for budgeting in tough times

- When talking to people on or off campus about the budget, acknowledge both the fiscal realities and the anxieties people feel. There is a human dimension to this economic problem. Students, staff, and faculty need to know that their leaders understand this. Do not be Chicken Little, but do not be Pollyanna either. Candor and sober transparency will work best.
- Educate campus constituencies about the realities of competition in higher education. Public institutions are particularly at risk during budget crises, since their relatively more agile independent competitors can snap up market share while the publics, hamstrung by multilayered internal and external procedures, regulations, and bureaucratic reviews, may not be able to adapt quickly enough.
- Tell people the ground rules. That is, articulate your priorities boldly and strategically. Decide which functions, programs, and services are essential to the survival of your institution, and protect them even if you must shed the rest. Protect your enrollments and make the changes needed to assure students they’ll graduate on time.
- When making budget cuts, do it right the first time. Be decisive, candid, and quick. You do not want to draw out the pain, and you definitely do not want to have to repeat the process because you were too timid the first time. Nobody wants wave after wave of budget cuts.
- A crisis is a terrible thing to waste. “Across-the-board” cuts are slow death. Except perhaps when the leader has just taken office, the across-the-board approach signals a manager’s failure to take responsibility for knowing and supporting the real priorities. When budget reductions are double digit there is no better time to be strategic. Cut deeply enough to be able to achieve your budget reduction goals and to move funding toward strategic priorities.
• Yes, consult. But be smart about it. Don’t try to forge a consensus, and don’t take a vote. This is not a time for the mindlessness of yellow post-its on the walls. Do not expect people to “buy in” to budget proposals that are major departures from the status quo. Wise consultation must have an ending point. Establish invariate deadlines by which decisions regarding budget reductions and revenue enhancements will be made. Making decisions in the context of risk and uncertainty is a necessary part of leadership. If you have problems with this, resign. True, there is always something more that could be learned, but each delay is doubly expensive. While you take a “wait-and-see” approach, others are positioning themselves to outcompete you for students and resources.

• If your institution is unionized, now is the time, if you have not done so already, to invite collaboration and to share information about your budget realities. Everyone understands that unless the institution survives, nobody will have a job.

• Make periodic presentations to mid-level managers, trustees, staff, faculty, and students to inform them and to teach them how the budget works. People may not agree with the choices being made, but at least they will understand the parameters. Understanding how endowment expenditures work and how discount rates work are just two examples of the many things often misunderstood even by senior faculty and mid-level administrators.

• Protect your major revenue stream. For the vast majority of institutions, the fundamental generator of revenue is faculty teaching students. That translates directly into tuition revenue or state subsidies for instructional work. This is so much more important simply as a business reality, that one must preserve first and foremost students and along with them those who teach students. The fact is that everyone and everything else at the institution is of lesser value from a hard-nosed, revenue-generating perspective.

• Be realistic. For example, if you do not have a good prior track record, then do not call on the faculty to dig you out of next year’s budget problems with external research or training grants from government agencies or philanthropic foundations. Competitive

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K. Patricia Cross Future Leaders Awards

The K. Patricia Cross Future Leaders Award recognizes graduate students who show exemplary promise as future leaders of higher education; who demonstrate a commitment to developing academic and civic responsibility in themselves and others; and whose work reflects a strong emphasis on teaching and learning. The awards are sponsored by K. Patricia Cross, professor emerita of higher education at the University of California, Berkeley, and administered by the Association of American Colleges and Universities. Following are the recipients of the 2009 awards:

- Holly Bruland, English, University of Hawai‘i at Manoa
- Cara Gormally, plant biology, University of Georgia
- Mitchel T. Keller, mathematics, Georgia Institute of Technology
- Tessa Lowinske Desmond, literary studies, University of Wisconsin, Madison
- Tamara Mann, history, Columbia University
- Elizabeth Munz, communication, Purdue University
- Geoff Preidis, translational biology and molecular medicine, Baylor College of Medicine
- Marcella Runell-Hall, education, University of Massachusetts, Amherst
- Lisa Thornhill, language and rhetoric, University of Washington, Seattle
- Kyle Whyte, philosophy and American Indian studies, Stony Brook University

Nominations for the 2010 awards are due October 5, 2009. (For more information, see www.aacu.org.) The recipients will be introduced at the 2010 annual meeting, where they will deliver a presentation on “Faculty of the Future: Voices of the Next Generation.”
proposals presume months if not years of prior work, many foundations and agencies have less funding than before the recession, and these awards can cost inexperienced administrations more than their face value to accept, execute, and manage correctly. The same goes, a fortiori, for deciding to fundraise yourself out of trouble. Moreover, people invest serious dollars in winners and, at most, offer tiny bits of charity to losers. You will not be able to raise much money with “Help us! We’re dying over here!” as your tag line.

### Thirty-four suggestions

The suggestions below can help you generate revenue, increase productivity, and cut expenditures. Some are tactical, others are strategic. Some are short term, others are long term. Some may be familiar, others novel and unusual. No doubt many ideas will run contrary to your current practices, cultural assumptions, policies, bylaws, or labor contracts. Extraordinary circumstances call for extraordinary measures.

1. Plan today to capture as many of this budget year’s dollars as possible, and hold them in reserve as part of a one-time giveback next year. Ideally senior managers would have built up cash reserves from prior years, instead of spending 100 percent (or more) of the operating revenue every year.

2. Provide financial incentives to departments that stay within their budgets or overachieve budget reductions. Give departmental managers the latitude to move operating money across budget lines and to negotiate key purchases during those times of the year when they can strike the best bargains, regardless of the institution’s annual budget cycle. Let them
keep year-end operating budget positive balances in small reserve accounts so they can spend it on things they regard as important. Do not sweep away these small operating budget savings, since that only encourages everyone to spend down to zero. If overspending does occur, subtract that amount from the unit’s forthcoming budget allocation and discipline, demote, or fire the manager who overspent. Never reward overspending with increased allocations. If it is necessary to sweep away small departmental and school reserve funds built up over time by prudent and frugal first-level administrators, at a minimum treat this as a “loan” to the central administration that must be repaid in future years with interest when times are better.

3. If at all possible, permit departments (schools) to retain any FTEs that become vacant due to negative tenure decisions made at the department (school) level. To sweep that vacant line would only punish those with standards and incentivize others to make positive recommendations to unworthy candidates in order to preserve their salary line.

4. Freeze all searches immediately, even if candidates are now being interviewed. Then thaw only those very few “life-changing” searches that are absolutely essential to institutional survival. In the rare case that you have a robust reserve and expect to be able to weather the current storm, now is the time to recruit. You can make some wonderfully good hires in this economy.

5. To save jobs, reduce all salaries by X percent. X should be higher for well-paid people and lower for people with mid-level salaries. Maybe X should be zero or maybe X/2 for your lowest-paid support staff. Maybe for the CEO and CFO it should be 2X. If salary reductions are not possible, use furloughs for staff and full-time faculty. Two days of unpaid furloughs per month is roughly a 10 percent reduction in salary costs during the academic year.

6. Regrettable as it may be, renegotiate and reduce employee benefits package expenses by increasing the deductible, increasing copayments, increasing employee contributions, and decreasing covered services. Review and restructure tuition remission programs so that these are well-focused on the goal of faculty and staff retention, and not goals of lesser significance to the long-term survival of the institution.

7. Eliminate the legal necessity of putting operating cash into a retirement reserve fund by moving away from defined-benefits retirement programs and on to defined-contribution retirement programs.

8. Reduce debt service payment amounts by renegotiating long-term debt; seek a lower interest rate; extend the term of the loan; change banks if necessary. Perhaps a competitor bank wants your business more than your current bank does.

9. Replace some buildings and grounds staff, office staff, and custodial staff with student workers earning tuition credits.

10. Increase productivity by assigning every nonfaculty employee who holds a master’s or doctorate to teach a course.

11. Increase enrollments of nearby nontraditional students in adult education, certificate, and master’s professional programs using hybrid teaching models: f2f plus distance, mini-terms, weekends, offsite locations, summer and evening sessions. Working people with families do not want to travel to campus more than once per week, and with the technology available today, there is no good reason why they should be forced to do so. If your institution feels otherwise, that’s fine. Other institutions will be happy to educate these students.

12. Increase enrollments by providing tuition rebates or mini-scholarships at the graduate, professional, and adult education levels for a second course in the same term. Even a 15 percent discount (scholarship) can be a valuable and cost-effective recruiting tool.

13. Increase productivity by providing cash incentives to schools, departments, and individual faculty members who exceed new and returning student enrollment targets for their schools, programs, and courses. A small incentive bonus for overachieving revenue targets works.

14. Increase productivity by increasing class size. For example, going from twenty-two to twenty-five, or from forty to forty-six, represents a 15 percent increase in productivity.

15. Increase productivity by withholding load credit for any courses with fewer than X enrolled. Where X was once eight or ten, move it to fifteen. Faculty may wish to teach under-enrolled courses, and they should not be forbidden from doing so. But making that individual choice does not obligate the institution to count that gift as part of the person’s teaching load.
16. Increase productivity by measuring faculty teaching by the number of students for whom final grades are submitted, not by the number of students who happen to be enrolled at census day. This will incentivize student success and retention.

17. Enable more people to focus on essential work by cutting memberships of all committees by 50 percent and by reducing the number of time any committee is allowed to meet by 50 percent. The only two committees that are essential are the assessment committee to establish the educational effectiveness of the curriculum, which is critical for funding and accreditation, and the student success committee to work on improving retention and graduation rates. The rest, even when they do a good and useful job in ordinary times, can still perform even with 75 percent fewer human-hours being consumed in the process. Those hours can be put to better use in these tough times.

18. Increase rental revenues by collaborating with local governments, nongovernmental agencies, clubs, and cultural groups on the use of campus theaters, recreational facilities and meeting rooms as well as the services of custodians, public safety, administrative support, and food services units.

19. Lease prime ground-floor spaces in campus buildings to retailers (banks, restaurants, clothiers) and service providers (legal, medical, dry cleaning, etc.) that members of the campus community and people living in the neighborhood can use. Classrooms and offices can go on higher floors. Blending the campus with the community can have very beneficial impacts on town-gown relations and on student retention.

20. Lease excess residence hall rooms to nonstudent tenants. Even if they are losing their homes or their jobs, people still need places to live.

21. Close and lease remote campuses and unused buildings. Do not sell the land, unless the survival of the institution hangs in the balance. Instead, find a developer, private or public, that has an interest in partnering with the institution to use the land or the buildings in clever and economically productive ways.

22. Collaborate in order to compete more successfully. Join with other institutions to share faculty members, classrooms, residence halls, recreational facilities, libraries, registration and records functions, security, administrative support, purchasing, human resources departments, and parking.

23. Substantially reduce office support staff expenses by pooling staff by buildings and by clusters of four and five departments. This will actually improve services across the full spectrum of support needs, including technical and budget support.

24. Eliminate “special-service monopolies” and “instructional bottlenecks” along with the bloated staffing profiles they foster. Co-locate student services into a one-stop-shop where 90 percent of the questions and problems students bring can be immediately successfully addressed. On the academic side, eliminate departmentally imposed prerequisites on general education courses that should be open to all students.

25. To the extent possible, preserve tenured faculty assets for use when economic times are better by eliminating mid-level administrative staff positions in student affairs, academic affairs, the library, student housing, admissions, fundraising, etc. Temporarily reassign tenured faculty with less than full teaching loads to support essential functions in those areas. Tenured faculty are a key asset. Decisions over the past years to locate a tenured line in a given department, to fill that line with a given...
hire, and to reward success with tenure represent efforts to build the institution for the long term. Even if not every decision was perfect, the overall thrust of those many decisions over many years by many people was to attempt to foresee decades ahead what the future needs of students and the institution would be in its main enterprise, which is education.

26. Suspend or close all undergraduate minors, and all graduate and undergraduate special-emphasis programs. Suspend or close at least 25 percent of all undergraduate major programs. Most colleges and universities offer more programs than student demand and faculty energy can justify. While closing programs reduces students’ choices, it need not prevent them from graduating on time with a fine education—provided, of course, that you make other needed policy adjustments to ensure that they do graduate on time. Redeploy faculty to support other undergraduate and graduate teaching needs.

27. Suspend or close all master’s programs in traditional disciplines and all doctoral programs that are not ranked among the top fifty in the nation. Strategically, it is important to endeavor to preserve your signature master’s and doctoral programs provided they bring genuinely positive national recognition or international distinction. Financially, it is important to preserve your demonstrably lucrative graduate professional programs. The argument that an academic department must continue to offer such programs in order to support faculty scholarship is not strong enough to forestall temporarily suspending programs with anemic enrollments and nonsignature status. Graduate programs can be justified if, first, the students are fulfilling their own goals; second, the program benefits society by producing highly skilled professionals; and third, it is a source of new knowledge and deeper understandings that, sooner or later, will benefit humankind. The professional and career advancement of the faculty is at best a secondary effect of, but not a justification for, such programs. While programs are suspended, redeploy faculty to meet undergraduate demand, or to take on some part-time administrative support work, or to assist in fundraising or student outreach and recruitment.

28. Offer a temporary partial leave-without-pay program: full benefits, but half an annual salary for half-time work. Some may be able to afford and enjoy this. If your bylaws prevent offering faculty temporary leaves without pay at full benefits, then expand the number of sabbaticals and research leaves with partial pay and full benefits.

29. Declare financial exigency—or whatever in your system must be declared—in order to permit the laying off of faculty and staff. Begin this process sooner, rather than later.

30. Increase institutional revenue by improving student retention through excellent teaching and the best possible quality of service at every level in every program. Set numerical goals. Measure progress. Reward success. Every student who stays and graduates means three fewer have to be recruited.

31. Follow up on every student who does not reenroll. If the problem is financial, make the student an offer of aid, work, or deferred payments. Build as close a relationship as possible between financial aid and enrollment management.

32. If tuition revenues exceed expectations, be sure to return a proportionate share to the student aid budget to buy down the institutional discount rate and to make additional funds available to support retention and further recruitment.

33. Offer students workshops and courses on financial management. Help them budget to stay in school, and help them see how much something really costs when you put it on your credit card and only pay the monthly minimum due.

34. Do a detailed energy audit of every building and reduce HVAC, lighting, water, and sewage expenses by every reasonable means. Windmills and solar panels may not be the most beautiful devices, but over the long run they can save money and impress potential students and benefactors who look to colleges and universities to lead by example.

One last thought
Natural selection and market competition being the forces that they are, some institutions will not survive financially no matter what they do. But others will survive only if they make all the right moves. In life, adaptation is everything.

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