Sustaining Institutional Viability in an Era of Belt-Tightening

Leadership for Lean Times

by Stephen Pelletier

Colleges and universities are facing today’s economic challenges with creativity and resolve. Some are even finding that the crisis can make them stronger.

Budgets being what they are in 2009, these are the times that try deans’ souls. Not to mention those of presidents, trustees, students, parents and just about every other stakeholder in higher education.

With lean realities evidently settling in for a long stay, public colleges and universities are tightening their budgetary belts. Defying the common wisdom that higher education is slow to change, many institutions have started taking decisive steps to stem spending.

Perhaps even more notably, some institutions are already taking a long view of the current turmoil. Wise academic leaders recognize that the economic tsunami offers insights and even opportunities that can help them position their institutions for stronger health after today’s storm clouds clear.

Challenging Realities Today

Public colleges and universities entered 2009 with budget realities that range from manageable to painful. State after state has announced wave after wave of budget cuts. This past fall, for example, Governor Arnold Schwarzenegger proposed a $66 million cutback in funds for the California State University system—on the heels of a recent hit that already claimed some $31 million. In Louisiana, it was reported that higher education was being asked to absorb roughly a third of a $341 million reduction in the state budget.

In an otherwise gloomy clime, one bright spot was North Dakota, where substantial reserves helped Governor John Hoeven call for a total of $170 million in increases for the state university system in his 2009-2011 budget.

It could also be said that another bright spot were those states that were trying to hold the line on cuts for education even as they slashed funding elsewhere. Ohio legislators, for example, worked to hold higher education harmless during initial rounds of state cutbacks totaling some $1.2 billion. By December, however, another $640 million was on the chopping block and even deeper cuts were envisioned—and the governor called college presidents in for a frank discussion. “Everybody understands that these are not situations that anybody wants to be in,” says Eric D. Fingerhut, chancellor of the Ohio Board of Regents, “so I think people are approaching it very constructively. But we have to deal with reality.”

For virtually every college and university,
the operative phrase going into 2009 was "cost containment." Strategies vary.

The low-hanging fruit include trimming funds for off-campus travel, training and staff development, paring departmental expenditures, and approving only the most pressing equipment requests. Facility schedules are being refigured to save energy and personnel costs. Capital construction projects are being postponed. Deferred maintenance is being, if you will, deferred. At least one institution was even toying with the possibility of using free, open source software to cut down on computing costs.

Institutions are finding ways to be even more prudent in managing finances. The College of New Jersey, for example, changed investment allocations to help ensure the institution's liquidity. This past spring, the school refinanced its bonds to fixed rates, easing pressures on its long-term debt. Colleges are looking to trade reliance on general obligation bonds for other vehicles, such as the expanded use of leases. Others have considered changing policies for carrying unused funds forward into a new fiscal year. Vendor contracts are being combed for possible savings.

While AASCU released a study of cost containment at public colleges and universities last spring, the top area where institutions were looking to save money was energy consumption.

While sustainability and "going green" have raised awareness about energy expenses on many campuses, institutions now seek to save on utilities purely from a business standpoint. Eastern New Mexico University, for example, has cut costs through such simple steps as changing temperature thresholds for thermostats and installing automatic light sensors. Perhaps even more significantly, ENMU realized a 50 percent reduction in heating costs by purchasing natural gas futures.

Budgetary haircuts are hard enough, but universities know that if the economy continues to tank, they need to be ready to make deeper cuts. That will likely mean cutbacks in two areas that may exact considerably more pain: personnel and academic programs.

By necessity, salaries and benefits are under the microscope. Many institutions have turned to staff furloughs as a compromise to avoid layoffs. Asked by the governor to trim some $15.9 million from its FY09 budget for salaries, for example, the Board of Regents of the University System of Maryland directed that its member institutions develop plans to furlough employees for up to five days. Salisbury University President Janet Dudley-Eshbach was one of several Maryland

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presidents who announced they would also furlough themselves. Other presidents have turned down raises, or donated equivalent money back to their school. Schools are looking carefully at positions that are not currently filled. The St. Louis Post-Dispatch reported, for example, that Missouri Western State University put a hold on its search for a vice president of student affairs. As another example, Middle Tennessee State University has left some vacant positions unfilled, but it has also eliminated some part-time positions; it will pare full-time positions only as a last resort, says Tom Tozer, the school’s director of news and public affairs. Still, there have been layoffs, and more are probably inevitable.

To cut salary costs, some schools are also looking at sweetening early retirement incentives for faculty and staff. On some campuses, employees are being asked to pay a greater share of their benefits, especially health insurance. Some schools have frozen salaries and benefits.

The AASCU study on cost containment found that institutions were averse to cuts on the academic side of the house. “With undergraduate teaching and learning as their primary missions,” says Dan Hurley, AASCU’s director of state relations and policy analysis, public universities are “working very hard to protect the academic core of the institution.” As economic pressures build, however, Hurley suggests that it will be increasingly difficult to not prune academic areas.

In part because it’s not yet clear how deep state cuts will go this year and next, institutions so far seem to be trimming around the edges of academic programs. As one example, Scott Smart, the vice president for business affairs at Eastern New Mexico University, reported that his institution was looking outside academic affairs for possible positions to freeze, in that “we do not desire to negatively impact our teaching mission.”

While institutions have slashed adjunct faculty, wholesale layoffs of full-time professors have not been widespread—at least not yet. For now, universities are trying other approaches to hold the line on academic costs. They are making sure that classes are full. They may cancel some course sections. Some are reorganizing academic units and administrative structures. Middle Tennessee State University, for example, has reduced the number of faculty lines, increased faculty load, and increased its faculty-student ratio.

Institutions are also asking students to bear more of education’s economic burden. Tuition increases—perhaps in rather hefty bumps—are in the offing across the country. New York, for example, recently bumped SUNY tuition up by $620 and the governor’s latest budget proposal calls for 14 percent more. Richard D. Ringeisen, chancellor of the University of Illinois at Springfield, observes that public universities “have found ourselves having to think more like private schools” in terms of managing tuition resources. Given current economic trends, Ringeisen says “we’re very concerned about our students being able to pay.” He’s also concerned about whether public universities could “price themselves out of the
market."

Current state tuition policies create even more pressure. Illinois, for example, guarantees that a student’s tuition will remain at his or her first-year rate for four years of college. The chancellor of the Connecticut State University System recently suggested that the state consider waiving its cap on tuition increases so that schools in the system could, potentially, recoup more of the losses they are likely to incur in forthcoming state budget cuts.

There’s deep concern about whether students will continue to find money to borrow for college on the open market. In terms of institutional aid, schools are studying how they can now structure need- and merit-based aid in ways that serve institutional needs as well as those of potential students. The University of Illinois at Springfield worries about the impact of the recession on its current private fundraising campaign, a large part of which seeks to raise money for scholarships.

Students are also being affected in other ways, including decisions to reduce athletic scholarships, increase student fees and even do away with credit-card registration in order to save the cost of processing charges.

Some institutions are looking to increase enrollment in order to realize more revenue—and are making sure they have funded ample capacity in recruitment and admissions. Taking a very different tack, the California State University system has made moves to cap enrollment—saying that without state funding for enrollment growth it potentially will not be able to admit as many as 10,000 students.

In short, public institutions face the unenviable need to balance generally greater demand for their services in the face of sometimes severe cuts in their allocations. Tuition increases will be unlikely to offset that decrease in revenue. Ultimately, that means that fewer dollars are being spent on each student. Eventually, the cuts may mean that fewer courses are offered. It might take longer to graduate. Classes on the whole could be larger. Student services, such as advising, could be eroded. Cuts too close to core programs may erode academic quality. Some programs could be eliminated. Overall, access to education may also be impeded. Job cuts could affect local economies.

There’s a strong sense that current cuts in state support may be only the initial wave, and that further cuts may come if the economy worsens. For example, public four-year universities in Missouri have been asked to project scenarios based on budget cuts as high as 25 percent. Similarly, Nevada Governor Jim Gibbons has asked all state agencies to plan for the possibility of 24 percent and 34 percent reductions in state support.

Looking to Tomorrow

“I think that minimally the next two years are going to be very tough, across states and across state universities,” Dan Hurley says. “But there really is a silver lining in that in tough times comes unconventional thinking and action. I do think that a key strategy for institutions is to think big and bold and try to position America’s state colleges so that they are stronger when a stronger economy returns.”

With the right perspective, Hurley suggests, this can be a time when colleges can “identify more bold solutions to contain costs and deliver the public university mission as we always have, but with fewer dollars.” Options might
include using technology more creatively and cost-efficiently to deliver instruction, he suggests. From a standpoint of fiscal stewardship, he proposes, leasing buildings rather than constructing them from scratch may prove more advantageous. Hurley also believes that today’s challenges open doors for state universities to partner in even more significant ways with business, industry, and other education providers, including community colleges. He further thinks that public universities can learn from for-profit institutions—in particular, he suggests, there may be lessons to glean about student preferences for educational delivery. Leaders in public higher education want to make sure that as universities, legislators and other key stakeholders pore over budget details, they don’t lose sight of the big picture. In a statement released in November, for example, Kevin P. Reilly, president of the University of Wisconsin System, said that universities must do their part to help solve the state’s budget crisis, but he also had this reminder: “Our first obligation is to produce college-educated citizens who are prepared to succeed in the innovation economy.” Similarly, in testimony this past February before a state legislative subcommittee, Chancellor William E. Kirwan of the University System of Maryland reiterated an observation by Maryland’s governor that “the way that we get through these tough times is not by abandoning our priorities, but by protecting our priorities.”

Ohio’s Eric Fingerhut also sees some potential good coming from tight budgets. Through a strategic plan for higher education issued last March, Ohio was already pushing for increased productivity. The plan asked institutions to find 4 percent of “documentable internal efficiencies” over two years; the idea was that savings realized through such trimming could be reallocated to enhance quality in education.

The upshot, Fingerhut says, is that the plan already positions Ohio universities to make strategic cuts that will strengthen institutions. Given the Ohio plan, he says, “there’s nothing that we’re thinking about with respect to the budget crisis that we weren’t already planning to do.” If anything, he adds, “the crisis gives us perhaps an impetus to accelerate some things and implement some of the things that would have been more challenging in other times.”

The Ohio plan also maps a strategy for clarifying the distinctive missions of higher education institutions across the state. It seeks to create more seamless, cost-effective options for students at different stages of their education to choose programs that best suit their needs. One specific goal is to make better use of underused physical plants and other resources and to match student needs with workforce requirements.

“The single most important thing from my perspective for public higher education to do right now is to leverage all of our resources to the economic prosperity of our states,” Fingerhut says. “We are less accountable for that than we should be, and I think now is a moment to hold ourselves directly accountable. I think we have to be very proactive in this economic downturn in applying the full capacities of our institutions to helping our states adjust in this new economic environment and emerge stronger.”

Richard Ringeisen has a specific suggestion for college leaders who are weighing difficult budget decisions. Ringeisen makes a point of visiting the institution’s colleges and divisions every so often for candid conversations. In such meetings, Ringeisen says, he always tells colleagues “we’ll tell you the truth as we know it, we’ll tell you if we don’t know, and we’ll tell you if we just can’t tell you.”

It happened that his latest round of visits, this fall, coincided with a request from the governor that UIS hold back 2.5 percent of its state appropriation—with the possibility of further reductions to come. With budget cuts on everyone’s mind, Ringeisen’s campus discussions “let folks know what our thinking is,” he says, adding “we got some ideas, too, that we might not have thought of.” Proud of its tradition as a caring campus, for example, Ringeisen says the last thing UIS wants to do was have to resort to layoffs. True to the spirit of the school, staff brought up the possibility of furloughs as an option to separations.

“The fact that the consultation occurs” helps sustain campus morale, Ringeisen says.

Just as a ship at sea can’t afford to stop its engines when it encounters a storm, Ringeisen says institutions of higher learning have to “find ways to move forward even through these difficult times.” That requires hard decisions, he says, but importantly also helps institutions clarify what is essential and central to their missions.

In good times and in bad, Ringeisen likes to take an occasional walk through UIS’s food court. Rubbing shoulders with students is a reminder, he says, “that this is what it’s all about.”

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