Case Study: Budget Management in Higher Education

WHEN YOU FACE A BUDGET DEFICIT, YOU NEED NOT REDUCE SPENDING. JUST RAISE YOUR PRICES!

During a meeting of the University of Connecticut's Board of Trustees, Chief Financial Officer Scott Jordan reported, "There is a gap that has opened up and is, honestly, growing." Two months later, UConn announced its plan to raise tuition by more than $3,000 for in-state students and $4,000 for out-of-state students between 2016 and 2019. This increase is on top of the 28.3 percent escalation in tuition that had already occurred over the previous four years.

Jordan told reporters, "Something does have to give when we find ourselves in a dire fiscal situation. The university has a lot of financial pressure." Financial pressure indeed; UConn is facing a $40 million deficit in its $1.3 billion budget for the fiscal year that will begin in July 2016. In the face of this "dire financial situation," there are alternatives to piling higher tuition onto the backs of UConn students. For example, Jordan mentioned that cuts could be made in staffing, classes and other programming. "All of those would reduce costs," he said; but he added, "None of them would make UConn a better university."

Do Jordan and President Susan Herbst really believe that there isn't a single ineffective or obsolete program at UConn? That the university's mission would really suffer if a few programs were cut back or eliminated? That all current programs and groups are operating at maximum efficiency, with no waste whatsoever? UConn administrators seem to be focused only on raising tuition and revenues. Jordan also seemed to dismiss making some program and staff cuts, because “none of them would make UConn a better university;” but increasing tuition doesn’t make UConn a better university, either. Besides, cutting bad programs, obsolete courses and lousy instructors really would make UConn a better university, wouldn’t it?

Some people are quick to point out that the state contribution to the school's total proceeds has dropped from 43% to about 30% over the past 15 years. Since 2000, however, state spending on UConn has actually increased; but it hasn't been able to keep up with boosts in school spending that have occurred year after year, budget period after budget period. The elephant in the room is the excessive spending.

UConn is not alone when it comes to frequent and burdensome increases in tuition. It's endemic throughout American higher education. Since 1980, tuition charges at U.S. colleges and universities have risen 757 percent. Over the same period, food and electricity costs have risen about 150 percent.

During the last five years, UConn's spending has grown by 15 percent per year; but the annual inflation rate averaged only 1.7 percent over the same time span. Because of all this spending, Jordan expects to face deficits year after year. "It does feel like the new reality," he said, but added that UConn remains affordable despite recent and projected rises in tuition.

Let's do some benchmarking.

Speaking of affordability, maybe some UConn business professors could help the administration to put the school's planned tuition hikes into perspective. UConn's tuition for in-state students is $10,524 (before the planned 28.5% rise); and out-of-state students currently pay $32,066 in tuition. Let's benchmark these tuition charges with a few other state-supported schools.

School	**In-State Tuition**	**Comparison with UConn**
Arizona State University	$ 9,454	10% less
Cal Poly	$ 5,472	48% less
Florida State University	$ 4,646	56% less
	Out-of-State Tuition	
Penn State University (Main Campus)	$29,522	8% less
Ohio State University (Main Campus)	$25,669	20% less
San Diego State University	$16,332	49% less

There's a better way.

Imagine if business schools taught their students to manage budgets like their own administrators do. In other words, when the company suffers multi-million budget deficits, don't bother trying to reduce spending. Just keep raising the price of your product to your customers. Ludicrous.

A better way would be to start by reducing spending without compromising the quality of the company's products and services. Like many modern business organizations, universities are complex and often decentralized institutions. They waste a lot of money on redundant administrative activities and could save money by making some changes to their organization structure. This is nothing new; college and university employees have been making such suggestions for years. Before raising tuition, colleges should take actions like...

- Simplify organizational structure by decreasing layers of management.
- Increase the number of direct reports to each supervisor.

- Centralize services to eliminate redundancies in information technology, human resources, and finance.
- Consolidate purchasing to ensure the best deals with suppliers.
- Drop courses that have become obsolete. This will reduce costs without affecting core academic and research programs.

Steps like these can probably be taken at any university to save some real money. Three schools have already banked or projected substantial savings by implementing similar strategies. The University of California at Berkeley forecasts savings of about $75 million per year. At the University of North Carolina in Chapel Hill, declines in spending could reach $66 million a year. Cornell University revised its procurement process. Of a total of close to $85 million in projected savings, $30 million will result from changes in Cornell's purchasing practices.

Note that the savings achieved or anticipated at each of these universities would more than eliminate UConn's $40 million budget gap. Higher education in America must stop the madness of ever-increasing spending, tuition and student loan debt. Provide leadership. Get the budget under control. And Boards of Trustees should not approve any more raises in tuition until the administration proves that all opportunities for cost reduction have been adequately addressed.

Notes

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