

DOCUMENT RESUME

ED 402 879

HE 029 821

AUTHOR Baker, Jeffrey D.
 TITLE What Lies Ahead?
 PUB DATE Dec 95
 NOTE 25p.
 PUB TYPE Viewpoints (Opinion/Position Papers, Essays, etc.)
 (120)

EDRS PRICE MF01/PC01 Plus Postage.
 DESCRIPTORS Budgeting; Educational Assessment; Educational Economics; Educational Finance; *Educational Objectives; *Educational Planning; Educational Trends; Employment Opportunities; *Financial Support; Futures (of Society); Higher Education; Lifelong Learning; Long Range Planning; *Public Policy; Resource Allocation; State Aid; State Universities; Strategic Planning; Tuition

IDENTIFIERS *Montana; Montana State University; *Montana University System; University of Montana

ABSTRACT

This paper addresses challenges faced by the Montana University System in meeting the educational demands of a new knowledge age. The paper is organized into two sections; the first considers six factors that lay a foundation for four policy issues addressed in the second part. The six issues discussed in Part 1 include: (1) financial considerations, including state support, tuition, per capita income, enrollment trends; (2) support for lifelong learning; (3) integration of educational delivery systems; (4) future job markets; (5) strategic budgeting; and (6) a focus on teaching and scholarship. In Part 2, the public policy implications of these issues--access to lifelong learning, quality standards, costs, and accountability--are addressed. A final section of the paper looks ahead at higher education finances and charts historical and projected tuition rates and state financial support. An appended paper presents key concepts of strategic budgeting and outlines a basic structure for implementing a strategic budgeting process.

(CH)

 * Reproductions supplied by EDRS are the best that can be made *
 * from the original document. *

The contents of this paper are for discussion purposes only and not official policy of the Montana Board of Regents, the Commissioner, or the campuses of the Montana University System.

WHAT LIES AHEAD?

Prepared by

Jeffrey D. Baker, Ph.D.
Commissioner of Higher Education
2500 Broadway
Helena MT 59620
(406)444-6570

BEST COPY AVAILABLE

December 1995

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

Montana Univ System

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

- This document has been reproduced as received from the person or organization originating it.
- Minor changes have been made to improve reproduction quality.

- Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

1/NE 029 824

WHAT LIES AHEAD?

The challenges facing higher education are more than financial. Certainly the fiscal pressures are real and pressing (see attachment), but downsizing and being more efficient will not solve the fundamental problems. The enterprise itself is based on a model that is becoming increasingly outdated. For many decades, the design has served us well and, in fact, has been instrumental in propelling the United States to a position of unprecedented economic prominence. However, just as education had to change to meet the challenges of the industrial revolution, we now face a new challenge: preparing workers for the knowledge age.

Investment in human capital—the acquisition of skills and education—is the passport to the knowledge age; and the road to economic development goes through education.

Investment in human capital—the acquisition of skills and education—is the passport to the knowledge age; and the road to economic development goes through education. Without moving beyond high school, a worker's options in the knowledge era will be limited and movement up the economic ladder difficult. Looking at the wages of high school graduates during the

past two decades provides a glimpse of the future gulf between the haves and the have-nots.

The income advantage of the college-educated compared to those with only high school diplomas is growing. For males 25 to 34 years old, in 1971 mean annual income for those with bachelor's degrees was 27 percent greater than males with high school diplomas. By 1992 it was 60 percent greater, and growing rapidly (*Postsecondary Education Opportunity*, Number 40, October 1995, p. 15).

Similar to most states, Montana is not ready for these challenges. Though not to diminish some remarkable accomplishments in our state or minimize the exceptional work of many in the Montana University System, we are not adjusting quickly enough to meet the educational demands of the knowledge age. What are the challenges? How might we respond? What is the Montana education vision for the future?

This paper attempts to address these questions. **It should not be viewed as definitive. Rather, it is intended to stimulate the discussion.** The paper is organized into two sections. Part one considers six concepts that lay the foundation for the four policy issues outlined in part two. The six discussion points include:

- ✓ "Business as usual" in education is not possible in the forecasted fiscal environment; as costs increase, access is denied to students who will need the skills and knowledge in tomorrow's job market.
- ✓ We talk a good talk, but we have not modified the education model to fit the realities of a lifelong education process; we continue to be highly compartmentalized on our campuses and expect students to come to

education instead of education going to students.

... we have not modified the education model to fit the realities of a lifelong education process;

- ✓ New technologies are spawning new educational delivery systems that are not integrated into current planning; competition among education providers will intensify as new technologies take hold and the virtual university evolves.
- ✓ Almost paradoxically, future job market entry will depend less on a four-year credential, but job market success will mean lifetime engagement in the education process.
- ✓ Incremental budgeting often neglects items of highest priority and perhaps those most critical to strategic thinking and planning. We tend to place the most important strategic initiatives at the bottom of our list instead of the top.
- ✓ Teaching-scholarship needs refinement if we are to improve the education process. We must develop new expectations, new evaluation methodologies, and team-based reward systems.

Recognizing and resolving these six issues are crucial to defining policy objectives. Discussing them is the foundation for policy development in four areas: access, quality, cost, and accountability. Part two of this paper suggests a policy agenda to clarify the Montana vision for higher education.

Part One: The Issues

1. **Financial considerations.** A more in-depth discussion of financial issues is included as an attachment to this paper. The fiscal projections are meant to stimulate consideration of the financial outlook and heighten awareness of impending fiscal challenges. The methodology suggests what the future might look like if we continue business as usual. If we continue the trends of the past 15 years, what lies ahead? The assumptions and outcomes are to be challenged; yet we must exercise caution before we abandon these premises too quickly. We do not appear to be moving away from the suppositions that have underscored financial affairs for more than two decades. Consider the following:
 - State support. From 1980 to 1997, state support has increased 4 percent each year. If this historical trend is continued, the state will contribute \$155 million in 2010 compared to \$93 million in 1997.
 - Tuition. From 1980 to 1997, tuition has increased almost 12 percent each year. If this historical trend is continued, resident students will pay

almost \$8,000 in 2010 compared to just over \$1,800 in 1997.

- Per capita income. From 1980 to 1995, Montana's per capita income has increased almost 5 percent each year. If this historical growth is continued, per capita income in 2010 will be \$38,500.
- Enrollment. In 1995, enrollment in Montana's six four-year institutions was almost identical to that in 1984 (27,374 versus 27,475). Between 1980 and 1995, the low was 23,966 (1980) and the high 27,475 (1984).

Using these parameters, by 2010 we can expect:

- The cost burden. Tuition will be 20 percent of Montana per capita income. The burden of tuition will be nearly seven times the burden in 1980, when tuition was 3 percent of per capita income. If mandatory fees and room and board are added to tuition, an in-state student will pay almost 43 percent of annual per capita income to attend school.

If mandatory fees and room and board are added to tuition, an in-state student will pay almost 43 percent of annual per capita income to attend school.

- The state share. If we sustain the historical growth rate of 4 percent a year, state support will amount to 40 percent of the revenue stream for higher education. If we follow the trend since 1992, state support will be less than 22 percent. To put the trend into context, in the 12 years from 1980 through 1992, state support moved from just over 75 percent in 1980 to slightly over 73 percent in 1992.
- The enrollment expectations. While Montana's high school graduation rates are projected to increase 10 percent from 1985 through 2009, the impact of higher tuition and education costs, participation rates, migration patterns, demographic mix, and changing education delivery systems is unknown. Recent enrollment patterns suggest we do not fully understand the dynamics of these factors on postsecondary enrollments. Further, if the Montana University System achieves the restructuring goals of phase two and increases learner productivity, the impact on enrollments will be substantial.

2. **Lifelong learning.** Today's education model is inadequate to meet the requirements of a knowledge-based world. In the last 150 years, we have compartmentalized education to fit organizational thinking, using academic disciplines or service functions as criteria. Education is further differentiated by categories such as two-year education, certificate programs, and four-year degrees. Why? If we are serious about lifelong learning, we must rethink the model in the context of the changing workplace and the educational requirements of the job market and society.

In the lifelong learning model, education truly is continuous, with the focus on what the student learns, not on the accumulation of credits. We acknowledge achievement based on standards, not time on task. We are interested in performance, and the central theme is competency before progress.

In the lifelong learning model, education truly is continuous, with the focus on what the student learns, not on the accumulation of credits.

In the education model of tomorrow, education is a fully-integrated process throughout one's life. At any point during the lifelong education experience, articulation to the next group of options will be expected. There are no dead ends. Basic education competencies will be universal prerequisites—the demands of increasing social complexity and the job market will require it. Whether the entry point is a community college or university, the student will need to master oral and written communications, math, technology, critical thinking, and more. These proficiencies will be as vital to a technical enrollee as to a baccalaureate student.

- 3. Integrated educational delivery systems.** The time to rethink the delivery of education in the context of lifelong learning, access, and technology has arrived. Access to education is critical in the knowledge age; yet increasingly our present education model determines access by ability to pay. Demands for access are expanding with demands of the workplace. People who want better access cut across a broad spectrum of our population. They include the high school student taking college classes, the full-time worker developing better job skills, and the professional retooling for promotion or a job change—all will desire access at sites often distant from a campus. Are we ready to provide such opportunities? Are we ready to compete with other private and public institutions outside state boundaries? As noted by George Connick, "Education is no longer local. Entrepreneurial universities, colleges, and new companies with national and global markets are going to compete with our local campuses" (*Redesign*, Volume 2, Number 2, State Higher Education Executive Officers, October 1995. p. 2).

It is a long-standing academic tradition that a student may achieve competency through a number of options. In the future, none of these may include residency at an institution of higher learning. The new environment includes few bounds if proficiency is the measure of success and multiple delivery systems are the means.

In this evolving climate, we are challenged to rethink what we do and how we do it. We need to be focused and recast our historical notions that additional programs and increasing campus enrollments are necessarily desirable. Niche planning is defining what we do well and concentrating resources accordingly. Such planning suggests we may serve Montana citizens better by importing from the Internet and exporting programs or courses that are our strengths.

In the model of the future, campuses may have fewer programs; the student body will not be packaged neatly in a single location. Students will be spread throughout the state, the region, or even the nation. Students will continue to come to campuses for program components not easily delivered by other means, and they will come because they prefer a more traditional environment. For many programs, however, students will have other options that may be superior. Competency-based criteria and multiple delivery systems create a new dynamic that cuts to the core of the conventional education model.

The educator's functions will include fitting these pieces together in a coherent fashion while balancing human and technological factors. Traditional teaching models will be challenged and replaced if cost and quality differentials become too pronounced. Faculty will have new roles. There will likely be fewer tenure-track faculty and more support personnel. Graphic designers and technical/communications specialists will be partners in program and course development.

In this new environment, the artificial distinctions among K-12, two-year education, and four-year programs begin to dissipate. We are positioned in the new model to move beyond compartmentalized thinking; conceptual inabilities and resistance to change become the most notable impediments.

Within the context of niche planning, mission focus is essential. Technical colleges will remain oriented to technical programs, and four-year schools will focus on customary curricula. Multiple delivery systems will give new meaning to community, however. In the evolving environment, comparative advantage follows from expertise and delivery capability, not location. Response to local needs is no longer limited to local providers. A variety of resources, both in- and out-of-state, may meet community requirements. Campus location is no longer center stage—the focus is the match between delivery system and needs.

4. **The job market.** While the job market has sent strong signals to the contrary, the educational emphasis in Montana continues to be baccalaureate-oriented. In the context of lifelong learning and the knowledge age, are more appropriate options available? Low, four-year graduation rates, decreasing entry salaries in most disciplines, and increasing financial aid debt give further reason to question historic reliance on four-year schooling.

Still, the gap between individuals with high school degrees and those with postsecondary education continues to grow. "The only thing more costly than attending college is not attending college" (*Postsecondary Education Opportunity*, Number 40, October 1995, p. 15).

High-skill, high-wage jobs are not the exclusive territory of four-year graduates. As suggested earlier, skills and educational requisites will be needed by all who seek job-market entry beyond low-paying, service positions. Again, the response is lifelong learning that provides continuous educational

opportunities. An individual's movement in the job market parallels movement in education. Economic development, educational opportunities, and workforce preparation are inseparable. If we are not prepared to invest in education and workforce development, we are not going to achieve economic development.

If we are not prepared to invest in education and workforce development, we are not going to achieve economic development.

5. **Strategic budgeting.** Financing postsecondary education is currently driven by enrollment, specifically by full-time equivalents (FTE). FTEs are the derivative of credit-hour production, which means that the more credit hours generated the more revenue produced. We need to modify this thinking in the context of lifelong learning and integrated delivery systems. Future access to education will be limited neither by time nor place, yet we are geared to both in our current thinking. We must encourage investment and development in the technologies that will extend education opportunities and break down the artificial barriers of time, place, and distance.

The concept of strategic budgeting is straightforward—items of greatest priority are funded first, not last. If information technology is important, investment in equipment and people should be at the top of the list, not given whatever is left after everything else is budgeted incrementally. Dennis Jones of NCHEMS outlines this process in specific detail (see attachment). He states:

One device for coping with major forces for change is to set aside a portion of the budget and explicitly designate these funds for activities that help the institution adapt to new circumstances and respond to clients' needs" (Jones, Dennis P., "Strategic Budgeting: The Board's Role in Public Colleges and Universities," Occasional Paper No. 28., Association of Governing Boards of Universities and Colleges, September 1995, p. 8).

6. **Teaching-Scholarship.** The focus in the Montana University System will be on teaching-scholarship. By definition, scholars are expected to be active in their fields, constantly learning and growing. Research is an integral part of scholarship and, in turn, scholarship is the substance of what is taught and a critical link by which students are engaged in the learning process. Scholarship is content.

Good teachers are active in the learning process. This mechanism varies by discipline but is integral to all postsecondary education. A microbiology professor must take an active role in the discipline's evolution or be left behind in a rapidly changing field. For the microbiologist, learning is doing and learning involves research. Active involvement is also a dynamic in other disciplines. For instance, in the arts—particularly the performing arts—learning activities are part of an ongoing process and central to the core of the learning experience. While we do not always think of these activities as

scholarship and student involvement as research, the parallels to microbiology are particularly appropriate if one thinks in terms of faculty development. We want our teachers to be actively engaged in scholarship as a central component of the teaching experience. The dynamic is an imperative.

Though the connection in some disciplines is not as evident, good scholarship is no less important. History serves as an example; and contrary to some beliefs, history is a changing field. Understanding history comes from research that delves into new ideas and concepts about historical events. The interpretation of history is at the heart of what the historian does.

Teaching is the process of communicating scholarship—the two concepts are inseparable. The dynamic of building the base is translated to the classroom, the stage, and to learning by doing in the field and laboratory. We cannot succeed in the technological environment if we are not serious about investing in people, in developing the human resources that provide education. Such development is as important in context as process, in scholarship as communication. A good teacher is involved in both.

To stimulate the development of the teacher-scholar, reward systems are needed based on performance and group accomplishments rather than individual achievement. How well do our students perform? Are we certifying them properly? These are some of the questions we should be asking.

Part Two: The Policy Implications

The central public policy problem of higher education opportunity remains affordability. Declining real family incomes, declining real starting salaries, increasing real college attendance costs and increasing debt levels for those who need financial aid to pay attendance costs are reallocating opportunity. The market will not correct this problem. It remains for public policy to find the solution" (*Postsecondary Education Opportunity*, Number 40, October 1995, p. 15).

As we move toward the education model of the future, I suggest we define our vision in terms of four parameters: access, quality, cost, and accountability. Successful public policy depends on how well accessibility, standards, performance, affordability, and accountability are balanced.

1. **Access.** Every Montana citizen will have access to lifelong learning opportunities. These opportunities will not be limited to a few areas where units of the Montana University System are now located. The goal is to integrate delivery systems and, as information technology improves, use these technologies to deliver education throughout the state. The backbone of Montana's communication network and access vehicle to the Internet is the state's information highway.

The infrastructure will link every Montana school. The courses/programs available throughout the state will include advanced placement for high school students, the university core, and specific programs tailored to local needs and focused on community job development and retraining. Financial incentives will be restructured to support these priorities.

Access to education rather than a particular unit of the Montana University System is the objective. Integrated delivery means consideration of the best the market has to offer, whether a Montana-produced service or not. Overcoming access constraints such as time, distance, and location will enhance workforce development, streamline the education process, and minimize barriers to opportunity. Education is no longer site-specific, and planning needs to consider these evolving changes.

From the student's perspective, access includes cost and quality. If education is too expensive, there is no access. If it is deficient in quality, value added is sacrificed. Initially, technological substitution is apt to focus on lower-division courses for which technical requirements are less stringent, volume is high, and need for specialization diminished. Concurrently, today's campuses will focus on what is more difficult to replace, on where fewer substitutes are available, and where hands-on learning is preferred or required. As campuses search for niches, these factors will be part of the analysis and decision-making.

2. **Quality.** Quality begins with standards, and standards are no longer linked to time-on-task but to accomplishments. Standards are the building

blocks. If we do not set high expectations, we will not succeed in the knowledge age. We need to define clearly admissions criteria and outline expectations throughout the lifelong education process.

As standards define expectations, performance measures accomplishments. Though we may not reach unanimous agreement on expected competencies in every area, we cannot delay establishing a performance-based foundation. We should move quickly to outline standards in writing, oral communication, math, critical thinking, and technology and continue development of competencies in all other disciplines. While the response to the job market is important, education has never been confined solely to the market place or to the development of job skills. As we work to be more responsive to workforce development, we must also embrace education's broader role in creating an enlightened citizenry. The purpose of education is to prepare students to be responsible citizens and to get a better job.

The purpose of education is to prepare students to be responsible citizens and to get a better job.

The process begins by reenergizing the contract with our students. We have responsibilities as do they. Phase two is a step toward defining the contractual process. The commitment to create opportunities is balanced with financial constraints and limitations.

3. **Cost.** Access without affordability is meaningless. Performance standards that exclude major segments of society ignore the future importance of a broadly educated citizenry and future workforce development requirements. Success in the knowledge age requires a delicate equilibrium among access, quality, and cost. The balance is the substance of education policymaking. Conquering the financial challenges that lie ahead will require new thinking. We cannot talk about lifelong learning, integrated delivery systems, changing job markets, and performance-based education without talking about finances. If we accept the premise that dramatic changes in the education model are necessary, the notion extends to finances as well.

To meet the challenges, we suggest a funding model for Montana that more nearly approximates the changing education environment and allocates resources in line with strategic initiatives rather than credit-hour production. The model embraces specific business practices while recognizing and retaining the qualities that make public education unique and valued.

The model's main features include (a) freezing state funding per resident student and capping the number of on-campus resident students receiving state support; (b) slowing in-state tuition increases and accelerating state-supported financial aid alternatives; (c) freeing institutions from enrollment caps; (d) establishing specific performance-based criteria both for academic programs and support services; (e) tying funding incentives to the accomplishment of specific organizational goals; (f) using strategic budgeting

and providing incentive funding to deliver education to students rather than deliver students to education; (g) encouraging recruitment of out-of-state students and basing nonresident pricing on market considerations rather than cost-of-education formulas; (h) placing greater management flexibility at the university and campus levels; and (i) retaining and reinvesting efficiency savings, particularly at the department levels.

... using strategic budgeting and providing incentive funding to deliver education to students rather than deliver students to education;

4. **Accountability.** If we do not have standards, how do we know where we intend to go, and how will we know whether we are successful? Accountability begins with standards that are the benchmarks by which progress can be measured.

Accountability begins with standards that are the benchmarks by which progress can be measured.

Once standards are specified, the heart of accountability is student achievement and performance. The benchmarks begin with:

- ✓ Student performance evaluation at entry and selected intervals during the education process
- ✓ Retention and persistence to educational goals
- ✓ Graduation rates
- ✓ Graduation success rates by institution and program
- ✓ Job placement and starting salaries
- ✓ Graduate/professional school placement
- ✓ Employer satisfaction with graduate work skills, education, and work ethic
- ✓ Student satisfaction.

These and other output-oriented measures should be defined jointly by all interested parties.

We cannot abandon the definition of vision to short-term decisions that lack focus and perspective. This paper is intended to stimulate discussion. What is your vision for our state?

A LOOK AHEAD AT HIGHER EDUCATION FINANCES

To get a handle on our financial future is difficult, but to go from year to year without doing some longer-term forecasting is not wise. We need to look ahead and try to understand the implications of our short-term decisions. One way to approach the topic is to make assumptions about key variables and then forecast based on these parameters. Enrollment, tuition, and state support prescribe the revenue side of our financial statements and provide a starting point for the dialogue.

Chart I shows the history of in-state tuition from 1980 through 1997. We have used The University of Montana—Missoula in the example. The actual historical increases are compared to the Consumer Price Index (CPI), the federal government's measure of inflation. The results speak for themselves. Though reasons can always be offered for the increases, the fact remains that tuition has increased substantially over the 17-year history, averaging just under 12 percent per year.

Chart II depicts tuition rates that begin where Chart I ends and continues through 2010. The three lines represent three different assumptions. The top line assumes the same increase from 1997 through 2010 as that which has occurred in the past 17 years. The middle line uses half the historical rate. The bottom line assumes tuition increases at an assumed inflation rate of 3% per year. It is interesting to note that if we continue to increase tuition at the average of the past 17 years, tuition by itself (no fees) will be almost \$8,000 by 2010. If one looks at the percentage of per capita income it takes to fund tuition, the results are rather startling. Consider the following exercise:

- Step One. Calculate the tuition increase from 1996 to 2010 at the same average annual rate it increased from 1980 to 1995. We did this above.
- Step Two. Assume Montana's per capita income from 1996 to 2010 grows at the same average annual rate that occurred from 1980 to 1995. See below.
- Step Three. Divide the tuition rate for 1980, 1995, and 2010 by the corresponding per capita income. The results follow:

Montana Tuition—Per Capita Income Analysis

	1980	1995	2010
Resident Tuition	\$ 288*	\$ 1,548*	\$ 7,841**
Per Capita Income	\$8,728*	\$18,705**	\$38,540**
Tuition/Income	3%	8%	20%

* Actual
** Projected

In many respects, the tuition/per capita income ratio is a measure of the cost-of-education burden to students and parents. The burden is reflected in the percentage of per capita income required to support one student for one year at the university. To spice this up a bit, add mandatory fees and room and board to the student costs. Doing this with The University of Montana—Missoula example, by 2010 annual tuition, fees, and room and board will be \$16,480, or 43% of the estimated annual per capita income for that year.

Chart III represents the percentage of operating budgets coming from state support—1980 through 1997 and projections through 2010. From 1980 through 1992, the percentage remained around 75%. In other words, the six four-year units received about three-fourths of their operating budgets from the state, with the remainder coming from tuition and mandatory fees. Given the tuition rates that have already been set and the appropriations from the legislature, we know this percentage will be slightly more than 50% in 1997. The lines split at 1997, depending on which of two assumptions are made. The top line assumes the trend is the same as the average of the past 17 years. The bottom line assumes the trend is the average of the past 5 years. The bracketed projection is between 22% and 40% by 2010.

It is interesting to note that while the proportion of state funding continues to fall under all our assumptions, the 17-year trend is an annual rate increase of 4% and is projected as such in this example. In other words, as the percent of state support drops, the actual amount of state support continues to increase 4% a year, or by 2010 the state will be paying \$155.3 million compared to \$92.8 million in 1997.

Chart IV reflects enrollment from 1980 through 1995, with projections made for 1996 through 2001. The results give a sense of what we may encounter in terms of students. As you know, we will not reach our 1996 estimate. Once we know the annual figures in the spring, we will adjust the estimates for 1997 and beyond. These are based on campus projections. Questions about participation rates, the effects of higher tuition, the impact of information technology, and the trends in nontraditional enrollments are largely unknown at this point. Montana high school graduation rates are expected to increase 10 percent from 1995 through 2009.

If we are to discuss policy in meaningful ways, we must get a handle on the implications of our current course. I have tried to do this and keep the analysis from getting too complicated. I think we need to give some thought to these assumptions and refine them if they do not seem realistic. Finally, as we continue the dialogue about the future, the expenditure side of the equation is the next topic. How are we likely to change our expenditures in the next 15 years? What will be the needs?

CHART I.

MONTANA UNIVERSITY SYSTEM UNIVERSITY OF MONTANA

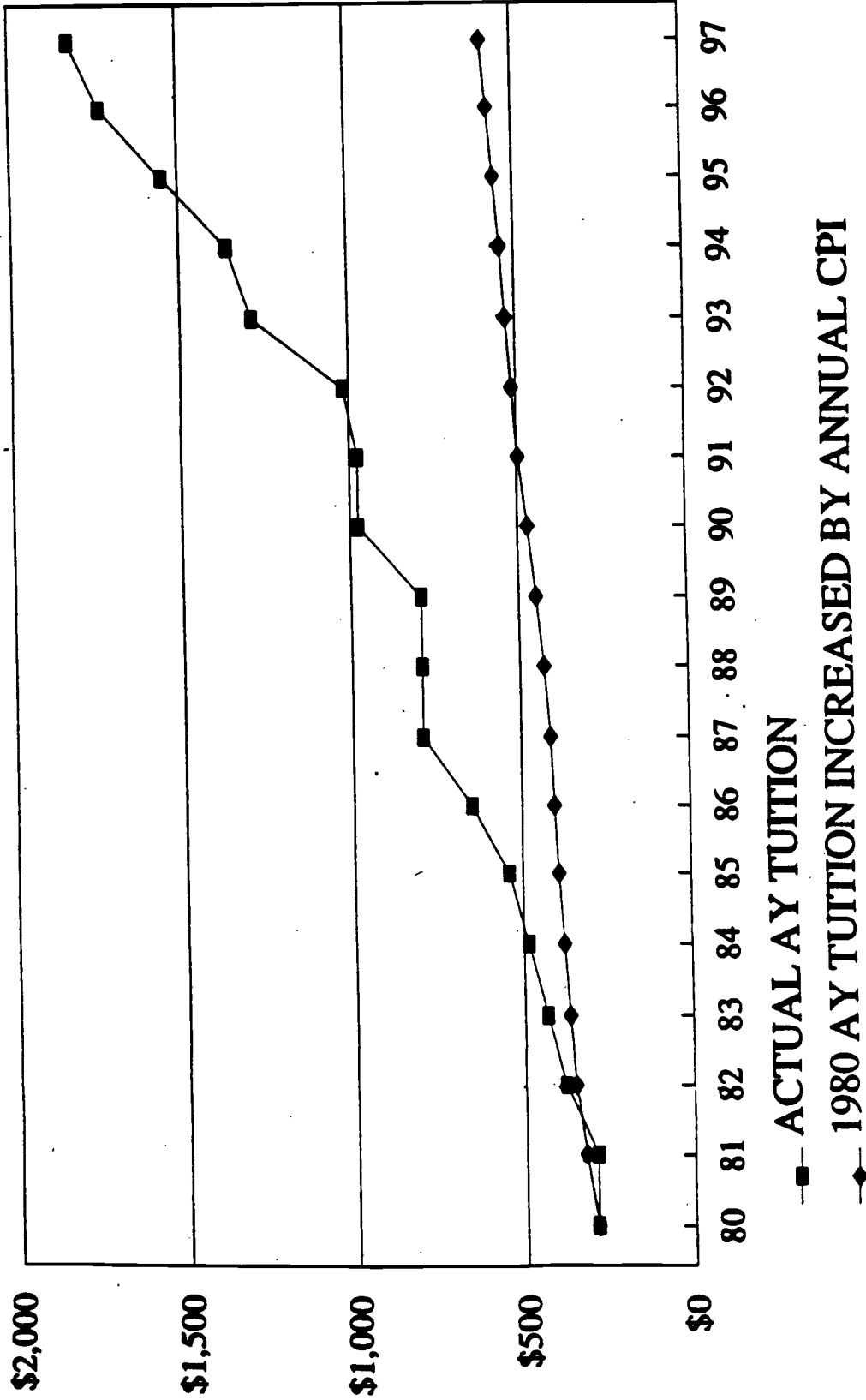


CHART II.

MONTANA UNIVERSITY SYSTEM

UNIVERSITY OF MONTANA

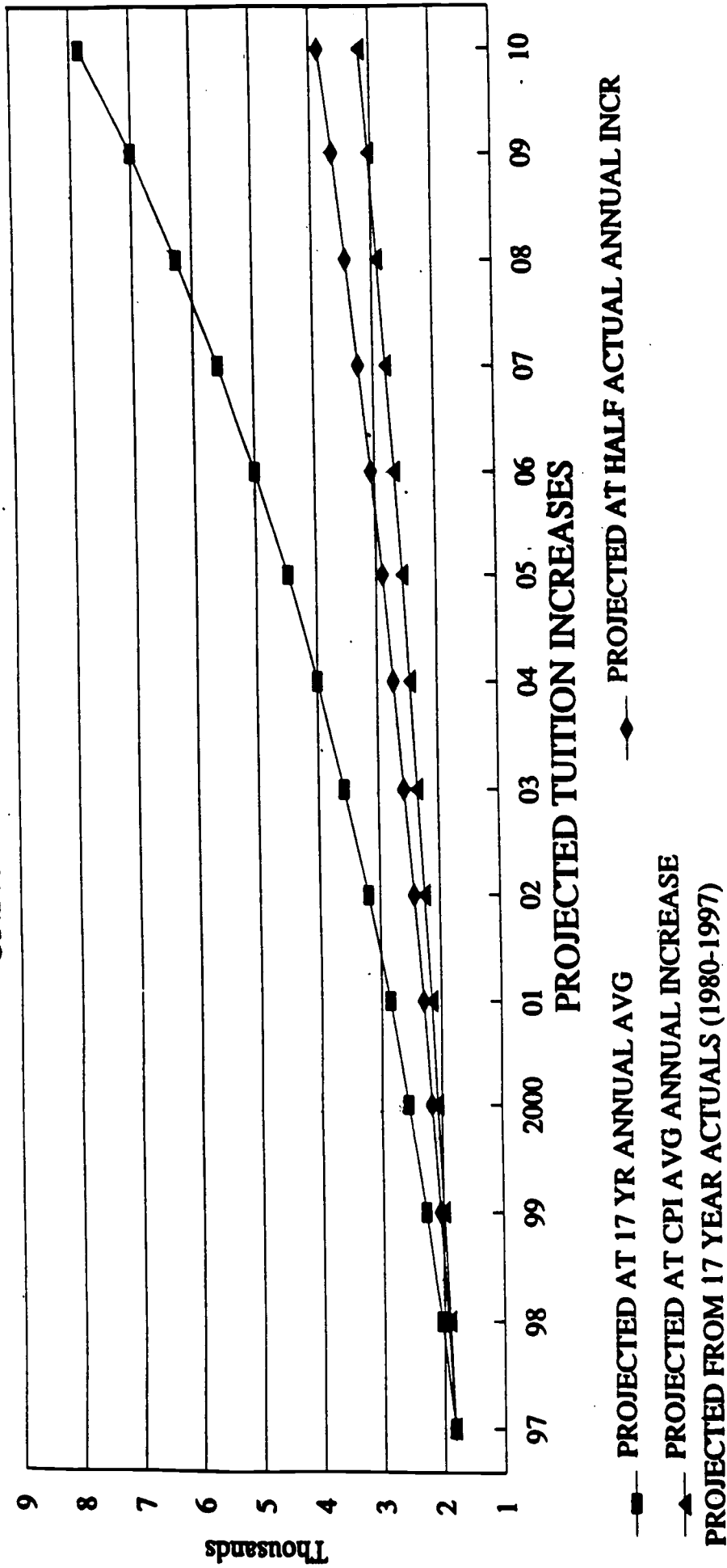
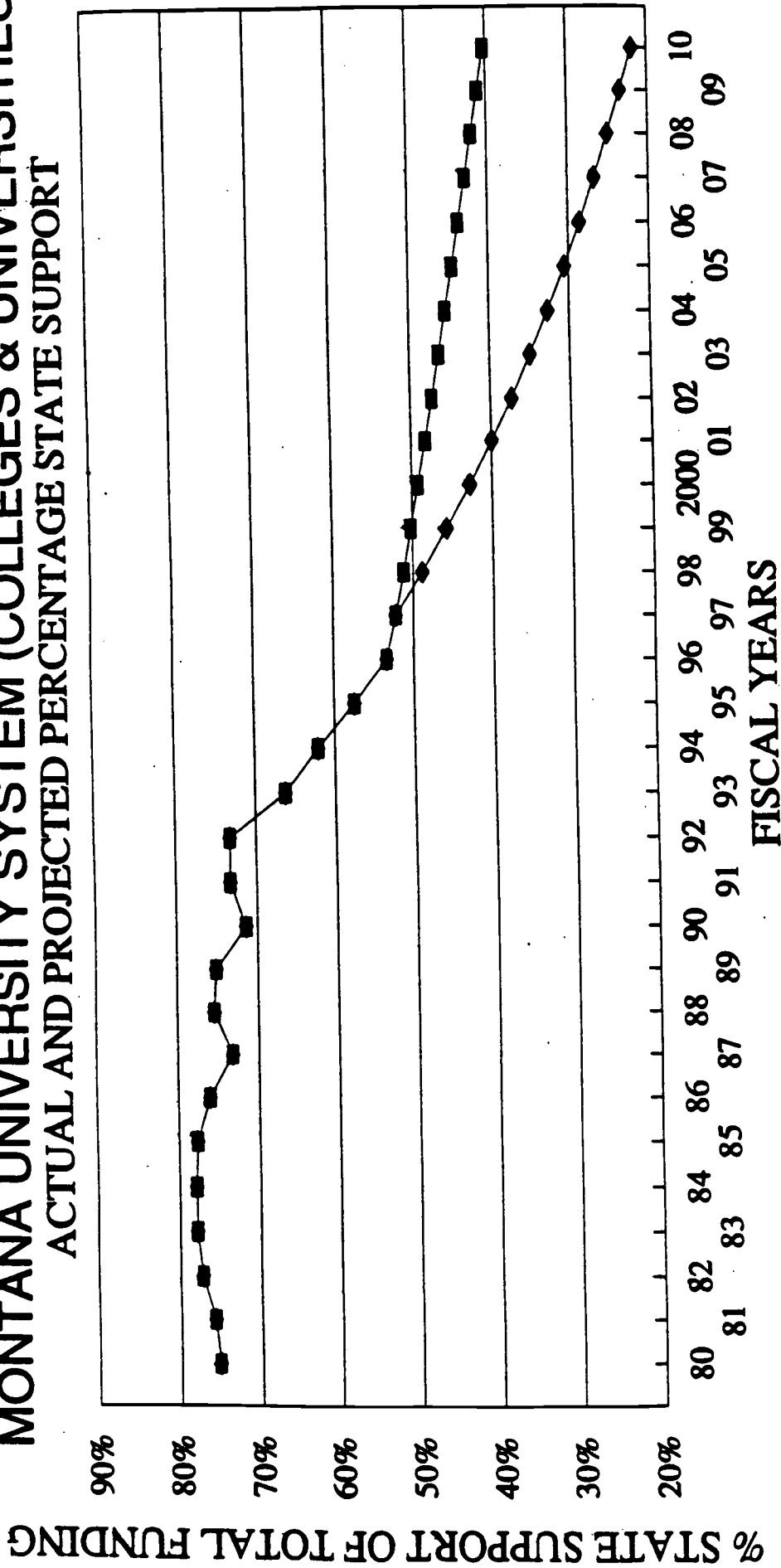


CHART III.

**MONTANA UNIVERSITY SYSTEM (COLLEGES & UNIVERSITIES)
ACTUAL AND PROJECTED PERCENTAGE STATE SUPPORT**

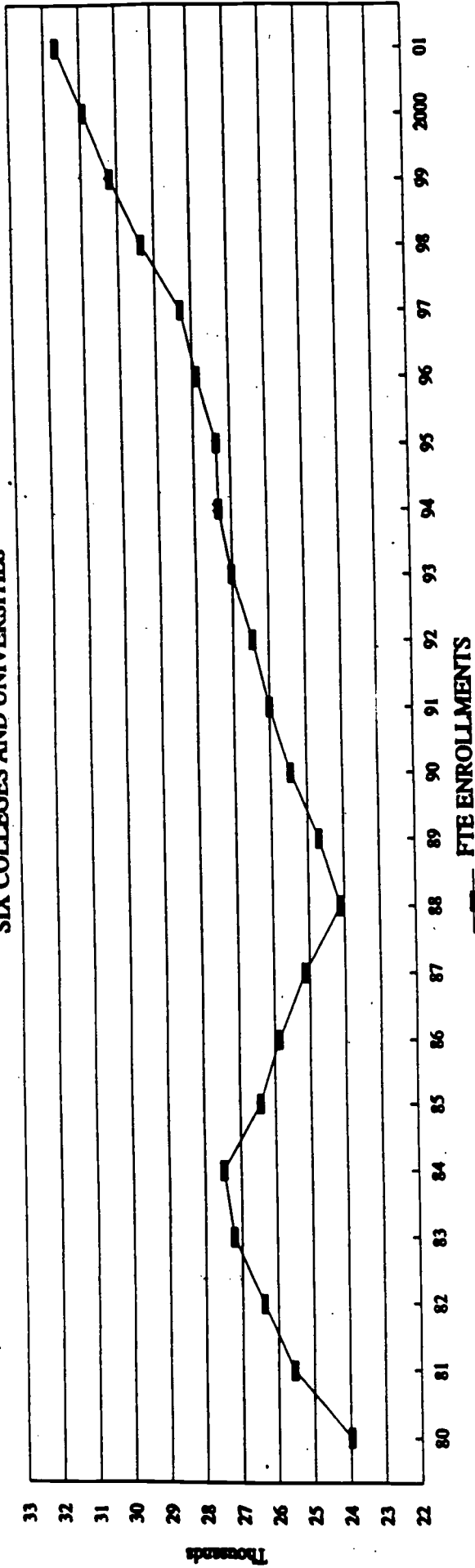


■ BASED ON PAST 17 YEARS' AVERAGE INCREASE
 ◆ BASED ON PAST 5 YEARS' AVERAGE INCREASE
 STATE SUPPORT INCLUDES GENERAL FUND AND MILLAGE

CHART IV.

MONTANA UNIVERSITY SYSTEM

SIX COLLEGES AND UNIVERSITIES



The Time For Strategic Budgeting Has Come

The budget is the most powerful tool that institutional leaders can employ to ensure that institutional plans are implemented as intended and that contributions to achieving organizational objectives are rewarded. It is the one mechanism through which positive incentives can be established and creativity unleashed; other tools available to organizational leaders--regulations, procedures, oversight--are uniformly negative and constraining in their influence.

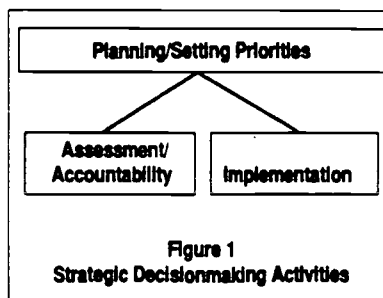
In spite of the centrality of the budget to the direction and functioning of any college or university, its use as a proactive tool for change is generally minimal. It should be the primary tool for implementation of an institution's strategic plan. It seldom is. And this is largely a function of the process by which budgets are typically developed. Requests are made by unit managers and forwarded upward through the organization, with "triage" being performed at every step along the way. The Board's role in shaping the budget typically is minimal. By the time institutional leaders see the budget, all the real decisions already have been made. To the extent that they have been involved earlier, it is usually in establishing initial guidelines for increases in tuition rates and salaries.

With planning coming from the top down and budgeting from the bottom up, it is little wonder that the two processes pass like ships in the night. And after they do, it's the budget that dominates institutional life. Plans are abstractions; budgets--and money--are much more real. Absent intentional connections between the two, the budget and the unit level perspectives that it reflects, will control institutional behaviors. If institutional priorities are in fact to be pursued and strategic plans actually implemented, an approach to budgeting that reflects a broader institutional perspective must be utilized. This article presents an

approach to "strategic budgeting" that NCHEMS has been emphasizing in its recent work with institutions. It also suggests the role that the board and senior administrators must play if strategic budgeting is to be effective.

I. The Key Concepts

The notion of strategic budgeting is based on a series of simple propositions. The first is that the budget is the most important implementation mechanism in the larger scheme of strategic decision-making activities in which an institution engages.



Within this framework, it is important to understand that all budgets, implicitly or explicitly, contain incentives for behavior of one kind or another. In the absence of an explicit and reinforcing relationship between the institution's plans (and the priorities contained therein) and the budget, the status quo will prevail. Connecting the budget to institutional plans and a change agenda requires intentional action on the part of institutional leaders.

Another basic proposition concerns the responsibility of institutional leaders. Both the board and top leadership must try to ensure that:

1. The assets of the institution are sufficient and appropriate to the mission of the institution.
2. These assets are maintained/not

allowed to depreciate or become obsolete.

3. These assets are applied in such a way that a) the institution's mission is achieved, b) the institution's strategic planning objectives are supported, and c) the institution responds to the priorities of its key constituents, particularly the state in the case of public colleges and universities.
4. The ongoing operations of the institution are buffered against unexpected changes in the financial environment.

These basic propositions are straightforward--even self-evident--but if extended into the resource allocation process, they suggest some significant changes in current ways of doing business.

Three changes, in particular, are worthy of note. First, this perspective places the primary emphasis of budgeting on (long-term) shaping and maintenance of the basic asset structure of the institution rather than on the (short-term) economic cost of those assets. It focuses attention on the components of the institution's balance sheet rather than more narrowly on revenues and expenditures. The need to attend simultaneously to the balance sheet and the profit-and-loss statement is recognized as a basic principle in the private sector. Positive performance on both fronts is a clear expectation; maximizing short-run profits (or, at least, balancing the books) through actions that seriously diminish the asset base of the organization is not an acceptable tactic. Yet, neglecting the assets of the institution in order to balance the annual budget is a common practice in higher education. When finances are constrained beyond the norm, colleges and universities systematically disinvest in their assets.

Second, institutional leadership is obliged to ensure not only that the institution possesses basic capacities (assets), but also that these assets are utilized to good effect. This means applying these assets in ways consistent with the institution's mission--so that no part of the mission is ignored and, more importantly, so that funds are not expended on pursuits outside the mission. It also implies some more specific requirements. One is that the budget be explicitly linked to the priorities and objectives that emerge

from the institution's planning processes. Another is that the budget be constructed in such a way that attention is directed to the needs of key external clients--most specifically the state in the case of public institutions.

The final requirement of strategic budgeting is less a change in the institution's basic approach to budgeting than it is an expansion of some good practices in which some institutions already engage. This requirement attaches to one of the propositions listed earlier--that institutional leaders are responsible for creating mechanisms that serve to shield the institution(s) from the consequences of unexpected financial misfortune. As resources get tighter and tighter, it is very common for institutions to sharpen their pencils and to create tighter and tighter budgets. They employ all kinds of (perfectly legitimate) devices designed to create a balanced budget. Among the most common tactics are:

- budgeting personnel costs in such a way that allowances for vacant positions are considered in formulation of the budget--i.e., reducing the personnel expenditures budget by the savings calculated to accrue as a result of vacant positions.
- being less conservative in revenue estimates. In public institutions, this normally takes the form of forecasting higher enrollments (and, therefore, tuition revenues) than would have been projected in previous years. In private institutions this often takes the form of more optimistic projections of gift revenue.
- eliminating the "cushion" in the utilities budget by betting on average climatic conditions rather than on extreme conditions.

By the very act of engaging in more "precise" budgeting, however, institutions leave themselves open to greater problems when the (inevitable) unexpected event occurs. In the absence of a contingency fund--a corporate safety net--good plans can easily be negated in the course of the annual budget implementation process.

If college and university leaders are responsible for ensuring the long-term adequacy and integrity of institutional assets and are accountable to institutional clients for utilization of those

assets in ways responsive to client needs, how can they discharge these obligations? A major part of their strategy must include taking an active role in shaping the budget and periodically monitoring its implementation.

Institutional leaders cannot effectively use the budget as a tool for achieving strategic plans if they do not participate proactively and appropriately in establishing guidelines to govern the budget-building process. Unfortunately, the involvement of senior administrators and board members in the early stages of the budget process--in establishing the parameters that shape the budget--is either minimal or is focused on the wrong set of questions.

In most public institutions, the early participation of institutional leaders tends to focus on:

1. Revenue estimation, with particular attention to:
 - tuition levels
 - enrollment projections
 - the strategy for developing the state appropriation request
2. Parameters for changes in "price" of certain line items, with emphasis on:
 - salary increases for faculty and other employees
 - benefit packages
 - utility costs
 - supplies and expenses--the operating budget.

Neither of these decisions does anything to really shape institutional asset structures, or to affect the utilization of assets in response to stated priorities. In order to ensure that the budget reflects the responsibilities of institutional leaders, we suggest instead that:

1. the budget be given a structure that explicitly reflects the areas of responsibility of strategic level decisionmakers, and
2. guidelines be established around each component of this structure as a prelude to initiating unit level budget-building.

A structure that would meet basic requirements would then have the following components:

1. a **base/continuation budget**--the status quo adjusted for salary increases and price changes. This has historically been the focus of the budget-building process. While this component is familiar to all, under the concept of strategic budgeting it is built in an entirely different way, because it must be constructed within a context in which guidelines for the other components are established a priori--in effect starting the process by taking certain items (listed below) "off the top."

2. **strategic initiatives and innovation**--a pool of resources to foster change and improvement should be a part of the budget every year. No institution is in a position where everything that it is currently doing is more important than the most creative response to an institutionally defined priority. This part of the budget should be no more subject to reduction in difficult economic times than the institution's base budget. These resources should be allocated on the basis of merit, not fair shares, and their use should be tied explicitly to the strategic plan of the institution or system.

3. **asset creation/deletion**--intended changes in the asset structure of the institution. To the extent anything approaching a strategic budget has been developed in many institutions, it is in this area. Statements of intentions to make marginal changes to the asset structure include those dealing with:

- increasing (or decreasing) the overall size of the employee base of the institution
- changing the mix of employees
- adding or deleting programs
- increasing capacity in selected disciplines or departments and decreasing it in others
- additional investments in technology.

In the absence of strong guidelines that shape the direction of such changes within an institution--guidelines established by institutional leadership--the cumulative effects of departmental or unit-level choices can quickly become at odds with institution-wide needs and priorities.

4. **asset maintenance**--funds set aside for reinvestment in the key assets of the institution.

- renewal and renovation of facilities

- replacement of equipment
- professional development of faculty and staff
- revision and development of curricula

While most policymakers recognize the importance of maintaining the assets that they've worked so hard to acquire (although not all would have thought to consider human and curricular assets in this context), protecting the resources to pay for maintenance of assets is perhaps the most difficult task in the budget-building process.

In spite of the difficulties, institutional leaders must assume responsibility for maintaining the worth of the assets that have been entrusted to their care. Philosophically and practically they must place the institution in the position of effectively **expensing depreciation** of the key assets of the enterprise and reinvesting this amount in these assets on an annual basis.

In spite of all the difficulties, it is here that board members can make one of their largest contributions to the long-term well being of the institution. By requiring a budget structured in such a way that the maintenance of key assets is visibly recognized, and by insisting that guidelines (targets) be established around this purpose before the bottom-up process begins, board members can do much to balance the long-term needs of the institution against the short-term interests that normally prevail.

5. **Contingency**-- funds set aside specifically for the purpose of protecting the institution against unexpected expenses or revenue shortfalls. Budget decisions should be made up front and deliberately, when choices can be made in the total institutional context; it is contrary to the long-term interests of the institution to have major decisions about resource allocation forced in the middle of the year when the choices are limited.

A budget structured in this way, with guidelines established by institutional leaders before units were asked to submit their requests, would do much to turn the budget into a powerful strategic tool.

Directory

<i>General Information</i>	(303) 497-0301
<i>Information Services</i>	(303) 497-0319
<i>Publications</i>	(303) 497-0390
<i>NCHEMS Management</i>	
<i>Services, Inc. (NMSI)</i>	(303) 497-0345
<i>FAX (NCHEMS & NMSI)</i>	(303) 497-0338

BEST COPY AVAILABLE



U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement (OERI)
Educational Resources Information Center (ERIC)



NOTICE

REPRODUCTION BASIS



This document is covered by a signed "Reproduction Release (Blanket)" form (on file within the ERIC system), encompassing all or classes of documents from its source organization and, therefore, does not require a "Specific Document" Release form.



This document is Federally-funded, or carries its own permission to reproduce, or is otherwise in the public domain and, therefore, may be reproduced by ERIC without a signed Reproduction Release form (either "Specific Document" or "Blanket").