Planning for Higher Education

Special Issue: Issues in Higher Education Finance
Inside: SCUP Trends in Higher Education

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Financial Planning:
Strategies and Lessons Learned

The Journal of the Society for College and University Planning
Financial Planning
Strategies and Lessons Learned

Financial planning is more important than ever as colleges and universities face serious if not unprecedented financial challenges.

by Paul T. Brinkman and Anthony W. Morgan

Introduction

As the United States and U.S. higher education look ahead to a relatively austere future, the financial planning function within higher education institutions will become increasingly critical. Our purpose in this article is to describe this multifaceted function and to distill lessons learned from decades of practice as to how best to execute it. Although our experience is broader, our perspective is colored by the many years we have spent engaged in financial planning at the University of Utah, a public research university. We trust that our reflections can be usefully generalized, given that the issues we discuss are not necessarily unique to that type of institution.

We start by noting several environmental trends, both external and internal, that have implications for higher education financial planning in the future. We then provide a brief overview of the role of financial planning within a typical university, that is, the many ways in which financial planning can add value in the decision-making process. We next offer suggestions on how to make financial planning work well, describe how organizational context influences financial planning, and discuss how the focus of financial planning may need to change in the future. We have chosen to focus on organizational dynamics regarding financial planning rather than on analytic models or other more technical issues.
Environmental Factors Influencing Financial Planning

External trends. Clark Kerr, former president of the University of California and former chair of the Carnegie Commission on Higher Education, often commented that the most significant changes in higher education have resulted from external forces (pers. comm.). Although there are many factors now affecting financial planning in higher education, we have chosen here to focus briefly on only five since most readers will be generally familiar with this topic.

First is the powerful force of shifting demographics. In earlier years, enrollment growth was, for the most part, the dominant demographic factor in financial planning. More recently (and especially looking to the future), the variability by state in the 18-year-old population and the low participation and completion rates of rapidly growing but underrepresented groups such as Hispanics loom large in thinking about enrollment and tuition, institutionally based financial aid, and net tuition revenue. Unless there are changes in the high school completion rates and college preparedness levels of underrepresented groups, the validity of the enrollment and financial planning assumptions commonly used in the past will be in some jeopardy.

Second, underlying philosophical assumptions about higher education have changed considerably during our professional careers and have greatly influenced financial planning. The tenants of “new public management,” most notably the focus on output measures, have increasingly forced us to think about the connections among revenues, expenditures, and outcomes. We will comment more on this issue in the final section of the article.

Third is the shift in perception from higher education as a public good to higher education as a private good. This shift has been accompanied by a significant change in who pays for higher education (from government to students and their families), the continuing rise of tuition as a critical source of marginal revenue growth, and the growth of financial aid as an expenditure. As measured in constant dollars, state and local appropriations per $1.00 in tuition have declined from $2.65 in 1991 to $1.27 in 2006 (Wellman 2006). “High tuition/high aid” has become an increasingly dominant philosophy that now challenges financial planners to assess the elasticity of rising tuition levels, project net tuition income, and focus on the strategic use of scholarships.

Fourth are other significant changes in the relative importance of various revenue streams. While state and local appropriations for public colleges and universities have been essentially level in terms of constant dollars over the past 20 years, other revenue streams, including but not limited to tuition, have increased at many institutions. These other revenue streams include contracts and grants, private giving, auxiliaries, endowment and interest earnings, earnings from technology transfer (royalties and licenses), hospitals, and other sources. For the financial planner, this has meant learning how to predict changes in these revenues and understand the part they play in the institution’s overall financial picture. The former is no easy task, as demonstrated by the dramatic swings in the stock market. The same can be said for predicting the potential impact of health care reform on academic medical centers and the effect of the post-stimulus environment on federally sponsored research.

Fifth, state governments have increasingly adopted the arguments of human capital theory and have pressured colleges and universities to increase participation and completion rates as a base for state economic development, although typically without commensurate state funding. (We acknowledge that this somewhat contradicts the third trend.)

Internal trends. When we look internally at higher education, we see an aging campus in which deferred maintenance continues to grow, not only with respect to buildings but also electrical transmission lines, high-temperature water pipes, and other infrastructure issues. We see the need for extensive remodeling and equipment replacement, stunningly large start-up costs for experimental scientists, an insatiable demand for information technology resources, and a keen interest in sustainability efforts that require up-front investment.

We also see growing disparities in the amount and type of revenue flowing to individual academic units based not so much on winning or losing in the annual budget cycle as on access to alternate revenue sources. Units differ with respect to private fund-raising, endowments, funded research, opportunities for technology transfer revenue, and possibilities for differential tuition. These differences lead not only to “haves and have nots,” but also to particular vulnerabilities (think of the unit heavily dependent on endowment earnings in fiscal 2007 versus fiscal 2009). How should an institution cope with these growing disparities and evolving vulnerabilities?
Financial Planning: Strategies and Lessons Learned

Finally, as our institutional strategic plans call for more interdisciplinary teaching and research, increased internationalization, greater efforts to engage students in the community, and more on-line courses and programs, we have seen the complexity of our funding needs grow, something likely to be true for other universities as well. While all these are worthy endeavors, they also create funding challenges as departmental silos come down, more partners and different entities become involved, and new cost and production functions come into play.

An Overview of the Role of Financial Planning

Financial planning in higher education no doubt means different things to different people, reflecting variations in personal experience and institutional configuration. Our focus in this article is on financial planning as a function that brings a coherent and integrative financial perspective to strategic planning, analyzes the environment from a financial perspective, guides the regular resource acquisition and allocation process, and develops the resources required to meet strategic objectives and address extraordinary situations. We distinguish financial planning from what one might call “financial analysis” or “financial assessment,” the kind of activity that focuses, for example, on financial health ratios, even though “financial planning” is sometimes used to refer to these activities as well (e.g., Salluzzo et al. 1999; Townsley 2004). Some British colleagues writing on financial management take a somewhat broader view of financial planning, perhaps a bit closer to what we have in mind, by focusing on revenue generation as much as on financial strength (e.g., Prowle and Morgan 2005; Thomas 2001).

The focus is on revenue generation as much as on financial strength.

We conceive of the role of the financial planner as consisting of four activities: (1) interacting with strategic planning, (2) analyzing trends, (3) guiding the annual budget cycle, and (4) coordinating the development and use of strategic financial resources (see figure 1). As described below, each activity is designed to add value by helping the institution achieve its goals, take advantage of opportunities, allocate its resources wisely, and cope with financial challenges.

Figure 1 Where and How Financial Planning Adds Value
Interacting with strategic planning. We need not dwell on the importance of either strategic planning or the necessity of including financial considerations in strategic plan development. That is a given for readers of this journal. We simply note that the financial planner is obligated both to know the financial implications of the various plans and to inform and interact with the planners so that the financial components of their plans are realistic in and of themselves and with respect to institutional capabilities and predilections. As Rowley and Sherman (2002, p. 9) note, “to ensure a successful strategic plan, those who are involved with the budget must also be involved in the strategic planning process.”

Analyzing trends. As is true for most planners, the financial planner must monitor both the external and internal environments. The financial planner is specifically obligated to assess the impact of environmental developments on the institution’s overall financial prospects and to offer specific guidance regarding resource acquisition and allocation and the accumulation of strategic resources.

Guiding the annual budget cycle. The financial planner can assist in the achievement of institutional goals and objectives by helping to guide the annual revenue generation and budget allocation processes. The latitude that an institution has in crafting its revenue generation and resource allocation strategies will vary by both circumstance and types of funds available. There are many constraints, of course, both internal and external. Nonetheless, all institutions will have some room to maneuver, and the financial planner must find these spaces and exploit them.

Coordinating the development and use of strategic financial resources. The financial planner should be an advocate for, and able to assist in, assembling strategic financial resources (in the form of financial reserves or calls on financial resources) that can be used to help fund the implementation of strategic plans, invest in new programs, seize unplanned opportunities, deal with emergencies, help start or complete capital projects, and help maintain the ongoing operations of the enterprise when it is under duress (Wellington 2007). Without readily mobilized strategic resources, the institution will likely be left with unpalatable alternatives, such as renegotiating prior commitments or failing to do what needs to be done.

Making Financial Planning Work

Here we suggest a variety of approaches and tactics that we believe are effective for the financial planner in carrying out the four activities previously described. Examples are included to show how these efforts have worked for us.

Interacting with strategic planning. The financial planner should look to interact with strategic planning at both the institutional and unit levels. While the nature of the interaction will depend on the planning process and the financial planner’s position in the organization, it is critical that the resulting plans include a financial component that is both thorough and realistic with respect to funds available and well integrated with institutional finances. Such plans include not only a determination of financial requirements, but also the timing and source of funding. Agreements reached with central administration should be duly recorded on a master list so that the totality of commitments is clear to those providing the support.

On occasion, what is available is not so much a plan as it is a direction or vision. In this case, the financial planner supports the implementation of the vision by first advocating for and participating in the accumulation of needed resources and then helping to guide the allocation of these resources when concrete initiatives are undertaken on behalf of the vision. For example, our strategic plan calls for further internationalizing the campus but provides few specifics as to how this is to occur. Over the past few years, various campus groups have proposed ideas that have attracted financial support as part of the internationalization vision, such as a scholarship program to help students pay for study-abroad experiences, enhanced efforts to increase the number of international internships, and tuition waivers to recruit more Fulbright students from overseas. In our role as financial planners, we have not supplied resources for these programs directly, of course, but we have played a role by identifying sources of support and helping to set an agenda that connects resources and plans.

Regarding strategic plans at the unit level, the institutional financial planner can be helpful in several ways. One is to assist unit-level faculty and staff in assessing the financial realities of proposed initiatives by using the planner’s knowledge of how the institution’s budget and finances work. Another is to compile information about the various commitments made by central administration in support of unit plans to ensure that the combined weight, nature, and timing of those commitments is understood centrally and can be provisiononed as promised. Finally, the financial planner can be an advocate for funding regular budget cycle requests that are tied to strategic plans. Giving those requests favored treatment, other things
being equal, will both allow the plans to be implemented and help build a culture in which faculty and staff are willing to invest time and energy in planning because they see that it pays off.

**Analyzing trends.** It is easy, at least conceptually, to know what trails to follow in scanning the external environment. First, the sources of the various revenue streams should be traced back to their origins. With respect to tuition, for example, what do the demographics suggest about enrollment prospects? What about pressure from Congress or the state legislature to suppress tuition increases? What are the prospects for different types of student aid? What are competitors doing? Someone needs to ask these questions and develop a range of possible outcomes using simulations and scenarios (as demonstrated, for example, in McIntyre 2004). Prospects for state support, research funding, long- and short-term investments, and other revenue streams must also be reviewed. It is unlikely that financial planners will be knowledgeable in all of these areas, so they must connect regularly with those who are.

Second, the sources of major expenditures should also be traced back to their foundations. Will competition for faculty likely increase or decrease over the near term? What about possible changes in health insurance premiums or the cost of utilities? Based on these investigations, again by tapping into expertise across the campus, the planner can assess the institution’s overall financial prospects and their implications for strategic resources and then offer specific guidance on resource acquisition and allocation. For example, because utility costs are likely to continue to increase, we have worked hard to ensure that our state funding formula takes those increases into account.

There is much to monitor internally as well. We suggest at least three focal points. One, what is the condition of the physical plant? Is the institution keeping up with preventive maintenance? If there were a major failure in, for example, the electrical transmission system, what might be the cost and how would it be handled? What is the prioritized plan for major remodeling projects and how will those projects be funded?

Two, if it becomes necessary to cut budgets further, what is the history of past cuts? What cuts would most impair achievement of strategic planning objectives? What programs might reach critical levels of sustainability or thresholds in terms of faculty and students or accreditation if their budgets are cut? What reserves are in place at the unit level? What opportunities, if any, do the various units have for generating non-general-fund support?

Three, with respect to instructional programs, are there content or delivery developments that have significant implications for funding? These developments may be captured in strategic plans and addressed through that mechanism or they may not, or at least not in their full scope. For example, on our campus only some of the increase in on-line courses can be linked to formal plans. The rest has come about in an unplanned, organic manner. Both have serious implications for resources.

We have found that some version of scenario planning can be helpful in analyzing the potential impacts of events in the external and internal environments. Scenario planning models can range from quite formal to more simplified (Morrison and Wilson 1997); however, nearly any model can assist financial planners and their colleagues in thinking about and quantifying environmental impacts. Scenario planning can also serve as a useful discussion tool and learning vehicle for institutional leadership. One tool we often use is simulation modeling; our approach uses spreadsheets rather than specialized software.

**Guiding the annual budget cycle.** Exploiting multiple sources of revenue is a hallmark of U.S. higher education, nowhere more so than at research universities. Institutions in the public sector must consider ways to ensure adequate state support, establish appropriate tuition levels, garner ever-greater amounts of philanthropic support, secure federal and private funding for research projects, cope with the vagaries of financial markets, find ways to benefit monetarily from their intellectual property (without “selling the farm”), and deal with a myriad of market and bureaucratic issues if health care is among the services they provide. The financial planner’s ability to influence the revenue generation strategy in these respective areas will likely vary considerably from some to none; however, being at least a party to the discussions is important in gathering an overall understanding of the institution’s finances.

Revenue from tuition is one area in which financial planners are likely to play a central role; this has been the case for us. It is an interesting area, rife with complex, even conflicting, institutional interests. One must pay attention to price elasticities and revenue maximization goals while remaining attuned to expectations regarding the composition of the entering class across income, ethnic, and academic achievement dimensions, all the while looking beyond immediate needs. It is important to consider tuition from a comprehensive, multiyear, and strategic perspective. A narrow, one-year-at-a-time, strictly
tactical approach is risky. Financial planners should be uniquely positioned to assist in this regard; scenarios can help demonstrate the risks of relying too heavily on short-term decision making.

Guiding or influencing resource allocation is conceptually straightforward. Ideally, marginal increments of funding would be allocated to those units whose requests for funding are in accord with institutional goals and objectives as well as with their own plans. In practice, this process can be hindered or facilitated by an institution's underlying approach to resource allocation. For example, an institution that relies entirely on an incremental approach, i.e., the new budget is the prior version plus a proportional share of any new money, will have a tough time steering the budget allocation process. In this approach, the process is essentially on autopilot and just a matter of the amount of fuel available. At the other end of the continuum, in theory a zero-based approach leaves plenty of room (too much perhaps) to redirect resources, but few institutions are willing to take on the work involved year after year.

In our experience, some combination of incremental, program, and formula budgeting operating simultaneously works reasonably well to balance the impact of different incentives over time. The prevalence and benefits of mixed model approaches worldwide are confirmed by Salmi and Hauptman (2006). Academic units at the University of Utah receive the bulk of their funding on an incremental basis, but they can also request funding for programmatic enhancements in accord with their strategic plans. These units also have access to so-called “productivity funding,” wherein funds are provided in a formulaic manner depending on changes in the number of credit hours generated by the unit. This approach serves to allocate new money when enrollment increases and to reallocate money when enrollment decreases or student demand shifts internally. It is a means, in other words, of incentivizing academic departments to pay attention to students’ instructional needs and interests. In addition, by adjusting the rates paid per credit hour, the university has been able to use this funding mechanism to further the achievement of other objectives, such as providing full degree programs at remote sites and enhancing interdisciplinary offerings. Financial planning has been critical in managing the budgeting process by keeping it focused on serving institutional interests and ensuring that resources are adequate to provision it.

Coordinating the development and use of strategic financial resources. Creating a significant quantity of strategic resources will likely take time, particularly if it is to be done without causing disruption or paying a heavy political price. It may also require stitching together funds from multiple sources and assembling different types of money, including general funds, research overhead reimbursements, unrestricted gifts, cash management interest earnings, the yield on investments centrally held, bond payment reserves, proceeds from technology transfer activities, and, in some instances, patient care revenues and proceeds from businesses that the institution operates.

A workable process for assembling strategic resources will vary by institutional context, of course, but three levels of “assembling” can be distinguished: (1) literally accumulating reserve funds under central control to use for strategic purposes, (2) establishing levels of understanding and commitment across multiple revenue streams for the use of resources when needed, and (3) simply having knowledge of those streams (quantities, flows, restrictions, typical demands, reserves, persons responsible, etc.) so that capabilities are understood and negotiations can begin quickly when needed. We have found that a combination of these three approaches works reasonably well over time as institutional fortunes (by revenue stream) wax and wane, challenges and opportunities evolve, and players turn over.

In our view, all major revenue streams should at least occasionally have a planned unallocated component so that reserves gradually accumulate. Additional opportunities to build reserve funds should be taken advantage of; for example, when some centrally managed funds happen to be unspent at year’s end. A year-end sweep of unspent balances in the operating units is another workable approach, although not one we have used since our practice is to encourage units to accumulate their own reserves.

Funds should not be set aside in ways that will put the institution at odds with the legislature or other constituencies. We recognize that states differ in allowing institutions to carry forward positive balances. Where this is possible, a connection between reserves and plans or other specific purposes will help justify the targeted amounts. Being careful where and how the funds are “stored” will also help. If the ultimate use of reserve funds is known, then it may be possible to restrict their use and thus protect them (although the attendant loss of flexibility must be considered).

For an institution that is serious about developing strategic resources as a financial planning tool, at a minimum someone or some group must know where resources can be found, their respective quantities, the demands upon
them, and the plans for their use. While this may seem obvious, such cross-campus knowledge may not exist or may not exist in sufficiently detailed and integrated terms to be useful. It has taken us some time to develop this knowledge, and an ongoing effort is required to maintain it. We live in a world of moving targets, it seems. In any case, a conscious, deliberate effort to develop such knowledge is highly recommended; we see it as a crucial element of effective financial planning.

If our experience is any guide, there will be many opportunities to use reserve funds. In the past few years, we have used reserves to buy and build out a data center, purchase facilities near the campus, undertake major remodeling projects, take down old buildings, address a host of infrastructure issues, purchase major equipment, support programmatic initiatives, and soften the effects of significant reductions in state support. These efforts required the application of various “colors of money.” The data center project alone involved major contributions from research overhead funds, patient care earnings, technology transfer earnings, and business earnings, as well as general funds. Our institution would be a noticeably different place in the absence of these efforts and the reserve funds that made them possible.

**Context Makes a Difference**

We have sketched the basic tasks confronting the financial planner and offered some suggestions on how to accomplish them. We turn now to several other considerations that affect how financial planning is undertaken and its chances for success. Broadly speaking, these considerations relate to “context;” that is, the history and culture of the institution, interpersonal relationships, and the nuances or subtleties of organizational design and organizational life.

**Organizational structure.** In our experience, the viability and success of financial planning depends in part on its location in the organization. We recognize that there is no one best model and that, in general, people matter more than structure. Traditionally, financial planning, rooted in accounting, budgeting, and financial reporting, has been located in a business vice president’s office, just as other types of planning are typically dispersed by function (e.g., physical master planning by architects under a business vice president, academic planning under a provost or academic vice president). However, our experience suggests that financial planning is more likely to be successful if it is embedded organizationally in the president’s or provost’s office and connected tightly to the budgeting function.

Our primary experience has been with an organizational model that David Gardner brought to the University of Utah in 1983, in which he pulled planning and budgeting together in the Office of the President. This model, at the time common at many University of California campuses, was later modified when these functions were moved into what is essentially a provost’s office. We have found that operating a financial planning and budgeting function from a presidential or provost base is highly advantageous. First, it enhances access to a greater variety of data and to people who know the meaning of the data. Second, it improves the chances that academic planning will drive financial and capital planning and that there will be a greater degree of planning integration. Third, it forces the integration of planning and budgeting organizationally—a normative mandate in the management literature, but one that is often weak in practice. (We acknowledge that this marriage may engender some role conflict in that planners tend to be “spenders” and those responsible for the budget tend to be “cutters.”)

Finally, it eliminates at least some of what Vandament (1989) refers to as “the ambiguities that can occur when the chief financial officer attempts to coordinate the financial activities of many departments and offices without direct line authority or responsibility for their general operation” (p. 18), and it overcomes the “lack of knowledge about the specific educational issues involved in the many academic programs of the campus” (p. 19) and other facets of campus life. Of course, in our planning and budgeting roles we work closely with the chief financial officer and his staff in mutually supportive ways.

This structure has been helpful in facilitating coherent responses to budget crises. For example, as we work through the massive reductions in state support triggered by the severe recession that began in 2008, the financial planning tool box contains a budget-reduction model (budget cuts net of incremental support by academic and administrative unit) connected to a multiyear plan for getting through the downturn (summary of cuts, incremental revenues, use of reserves) further connected to a strategic resources model (a series of multiyear, pro-forma-like plans detailing, among other things, the availability of reserves). Knowledge of institutional priorities (by the provost and planner) and unit-level finances (by the provost and budget officer/planner) guide the budget model. Assessments of external conditions (based on senior administration and
planner input) and knowledge of internal strategic resources (by the provost and planner) guide the multiyear recovery plan. The budget model, the recovery plan, and the strategic resources model interact with each other. Collectively, they help us deal with the budget problem in an orderly fashion, one that we hope will limit the damage and keep the institution on target.

Organizational culture of research universities. Organizational culture also greatly influences the chances of successful financial planning. Research universities tend to be highly decentralized organizations due in part to their size and high degree of specialization. The tendency toward decentralization is strengthened by the presence of multiple and sizeable revenue streams developed and largely controlled by various units ranging from medical schools and hospitals to colleges or departments that are highly successful in securing external research funding and private support.

Therefore, one of the challenges in establishing a strong financial planning function is gaining access to the needed financial data generated by these units and to the information on the variables and trends that will inform the meaningful use of these data. Of particular sensitivity are balances and reserves, commitments or claims on those balances, and degrees of flexibility. While accounting systems can provide data on balances, understanding what lies behind these data depends on a culture of trust and openness between decentralized units and the central administration. If the long-standing organizational culture of an institution is one of decentralization and autonomy, as is the case at the University of Utah, then development of a more centralized financial planning function can encounter organizational resistance. As noted previously, we have had to work long and hard to create a situation in which most if not all of the data are available centrally in a timely, usable fashion.

However, there is an inherent paradox in developing a culture of openness and transparency on one hand and developing strategic financial reserves on the other. Complete transparency of financial reserves inevitably generates internal demand to tap those reserves and external scrutiny that may result in losses or the discounting of institutional requests. While both internal and external audiences acknowledge, in theory, the need for reserves, institutional leaders sometimes find themselves in difficult circumstances. We have found that building long-term personal relationships of trust is the key to preserving these funds.

This paradox is exemplified in the nexus between strategic planning and financial planning. In our experience, formal institutional-level strategic plans are typically very public documents often produced through a relatively open planning process. To gain consensus and satisfy a wide variety of constituents, these plans are typically quite general and comprehensive in nature. Their value as a template for financial planning and resource allocation is limited by both their comprehensiveness and level of generality. To be realistic, strategic thinking and prioritization by institutional leadership must necessarily be more limited in scope and more specific in detail. This typically results in a more "private" version of the public strategic plan, i.e., an operational version. How widely shared or public this private version should be is a delicate issue.

In financial planning, context really does matter.

Organizational dynamics. Financial planning is embedded in the realities of organizational dynamics and therefore depends on a culture of cooperation and strong presidential leadership. Context really does matter, in that both formal and informal powers vested and invested in the central administration vary considerably. In our experience, the effectiveness of a president operating in this changing environment depends heavily on what Hardy (1996) has called "the politics of collegiality"—how power and collegiality interact in the context of research universities. Institutional collegiality (shared organizational purpose and direction and collaborative processes) is joined with instrumental power (centralized information, budgets, and procedures) and symbolic power (the management of meaning). As the number and magnitude of revenue streams grows and as potentially decentralizing resource allocation models (such as "responsibility-centered budgeting" or the instance in which individual academic units reap the benefits of program-based or differential tuition) become more common, the normal budget-related leverage of the central administration may decrease or at least become more difficult to exercise. In this case, even greater attention to collegiality and collaborative processes will be required if central financial planning is to be done effectively.

Conclusion

If Clark Kerr was right in attributing the most significant changes in higher education to external forces, then perhaps considerable shifts in the role of the financial planner can
also be expected. While major disruptions in U.S. financial markets have already taken their toll on endowments, interest earnings, and the wealth of foundations and individual donors, there may be more to come. Similarly, reforms in health care may have significant impacts on health care education and university hospitals. Our concluding comments focus on two trends that, taken together, may significantly change financial planning in universities and colleges.

**Rising costs and limits on revenue growth.** As it does with health care expenditures per capita, the United States spends about twice as much per higher education student as compared to other developed nations (OECD 2006). Similarly, we spend more than double the percentage of our GDP on tertiary education as compared to other developed nations (OECD 2006). Over the past 25 years, growth in higher education prices (tuition) has increased significantly faster than median family income and substantially faster than even health insurance premiums (Wellman 2007). The current trajectory of these trends cannot continue indefinitely and most likely will generate increasing political pressure for change. While public perceptions of costs differ substantially from the reality, cost concerns are always at the top of public opinion polls about higher education issues. As we know, politicians respond to widespread public perceptions.

Colleges and universities in the United States have been enormously successful in diversifying revenues, thereby lessening pressures on public sources. Yet, despite our success in revenue generation, we seem to live in a world in which costs outrun available revenues or in what Johnstone (2006) calls a time of “austerity.” Johnstone has long stressed the limits on revenue diversification: “Austerity is endemic to higher education as the natural trajectory of higher education costs outpaces the likely trajectory of available revenue” (2006, p. 49). Given these political and economic realities, it seems likely that higher education costs will take center stage in the future, just as health care costs have today.

We seem to live in a world in which costs outrun available revenues.

**Financial planning on the expenditure side.** Rising concerns over the cost of higher education, particularly at public research universities, coupled with the possibility of reaching a limit on the growth of new sources of revenue and tuition increases, will likely cause financial planning to move from its historic preoccupation with revenue planning to focus more on expenditure and cost patterns. Financial planners will then have to become much more familiar with cost modeling, identifying and experimenting with cost drivers (e.g., see Vandament 1989, chapter 6), benchmarking to gain better information on norms among peer institutions, and other modes of inquiry. If these trends are combined with continuing and increasing pressures to adopt the “output paradigm” of new public management, financial planners may also find themselves joining forces with institutional assessment specialists to learn about measuring output and tying expenditure patterns to outcomes.

Higher education has had the luxury of long-term revenue growth, which has allowed the continued expansion of services and programs over time. While we have certainly had to deal with severe but short-term revenue constraints in the form of one-time and base budget cuts, we have always been drawn back to focus on revenue generation and continued expansion at varying rates. Long-term or even permanent revenue constraints, should they occur, will have profound effects on the culture of research universities and the nature of financial planning.

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**References**


OECD. See Organisation for Economic Co-Operation and Development.

