

A Straight-Talk Survival Guide for Colleges

By PETER A. FACIONE

Times are tough, very tough. The great majority of colleges are looking at 2009 and 2010 and beyond, in anticipation of the deepest budget cuts in more than a generation. But as bad as the financial situation may be, colleges can survive if they take swift and strong emergency action.

It is time for some straight talk, starting with the realization that organizations that can't or won't adapt will fail. This recession has caused many of the nation's largest retailers, banks, airlines, manufacturers, and brokerage houses to do so. Millions of Americans have lost jobs and homes. Why would we think colleges, and those employed by them, would be exempt from the same fate? The market sorts itself out at times like these. Industries realign.

The first message for higher-education institutions has to be that competition is going to become fierce. For college leaders to believe that their main worries are the inwardly focused challenges and politics of maneuvering campus groups through an unpleasant budget realignment would be a major mistake. The institutions that will survive will be those that have built collaborations among internal groups in order to compete externally for students, faculty talent, and financial resources.

The second message is that higher education is part of the larger economic system. There will be casualties, just as commercial businesses will fail and other worthy nonprofit organizations will go broke. If a state's tax revenues fall by large percentages, given that the priorities of the states are usually public safety, unemployment support, transportation, basic services, and a balanced budget, then something will have to go. Often that something will be support for higher education.

Many policy makers regard higher education as both a public good and a private good. Insofar as it is the former, it is reasonable to support higher education as an economic engine and source of business, medical, legal, and technical progress. But much of that can wait, many people would say, until tax revenues rebound. Insofar as it is the latter, it is reasonable to reduce or defer support for colleges in bad times and to shift more of the cost onto students.

If you as a college administrator think you are in a sailboat during a gale, you are right. But you are not without tools with which to navigate

in these troubled waters. Here are some first principles for approaching budgeting in tough times:

When talking to people about the budget, acknowledge the fiscal realities and anxieties that they feel. This economic problem has a human dimension. Students, administrators, and faculty members need to know that their leaders understand that. Do not be Chicken Little, but do not be Pollyanna, either. Candor and sober transparency are best.

Educate people about the realities of competition in higher education. Public institutions are particularly at risk during budget crises because their relatively more agile private competitors can snap up market share while the publics – hamstrung by multilayered internal and external procedures, regulations, and bureaucratic reviews – may not be able to adapt quickly enough.

Tell people the ground rules. That is, articulate your priorities boldly and strategically. Decide which functions, programs, and services are essential to the survival of your institution, and protect them even if you must shed the rest. Guard your enrollments and make the changes needed to assure students that they'll graduate on time.

When making budget cuts, do it right the first time. Be decisive, candid, and quick. You don't want to draw out the pain or repeat the process because you were initially too timid. Nobody wants wave after wave of budget cuts.

Avoid across-the-board cuts. Except perhaps when the leader has just taken office, that approach signals an administrator's failure to take responsibility for knowing and supporting the real priorities. When budget reductions are double digit, there is no better time to be strategic.

Consult with people throughout the institution, but be smart about it. Don't try to forge a consensus, and don't take a vote. Do not expect people to buy in to budget proposals that are major departures from the status quo. Wise consultation must have an ending point. Establish strict deadlines by which decisions about budget reductions and revenue enhancements will be made. True, something more could always be learned, but each delay is doubly expensive. While you take a wait-and-see approach, others are positioning themselves to outcompete you for students and resources.

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

Make periodic presentations about the institution's financial situation to key groups. Inform administrators, trustees, professors, and students of your decisions and teach them how the budget works. People may not agree with the choices you are making, but at least they will understand the parameters. Endowment expenditures and discount rates are just two examples of the many things that even senior faculty members and midlevel administrators often misunderstand.

Protect your major revenue stream. For the vast majority of institutions, that means faculty members teaching students, which translates directly into tuition revenue or state subsidies for instructional work. Because of that business reality, you must preserve students and the people who educate them. The fact is, everyone and everything else at your institution is of lesser value from a hard-nosed, revenue-generating perspective.

Be realistic. For example, if you do not have a good track record, do not call on the faculty to dig you out of next year's budget problems with research or training grants from government agencies or philanthropic foundations. Competitive proposals presume months if not years of prior work. Many foundations and agencies have less money than before the recession, and such awards can cost inexperienced administrations more than their face value to accept and manage correctly. The same goes with trying to fund-raise yourself out of trouble. People invest serious dollars in winners and, at most, offer only tiny bits of charity to losers. You will not be able to raise much money with "Help us! We're dying over here!" as your tag line.

What are the best ways to generate revenue, increase productivity, and cut expenditures? Here are just a few examples, some of which may be familiar to you while others may run counter to your practices, cultural assumptions, policies, bylaws, or labor contracts. But given the circumstances, you may want to consider unusual alternatives:

Create a "Work to Learn" program that fills office, buildings-and-grounds, and custodial positions with student workers who will earn tuition credits. Students can be employed to perform a surprisingly wide variety of jobs.

Require every administrator with a master's or doctoral degree to teach a course.

Reduce office-staff expenses by pooling support-staff members in clusters of four and five departments. That will actually permit better services across the spectrum of needs.

Increase productivity by increasing class size. For example, going from 40 to 46 students represents a 15-percent increase in productivity. And your *U.S. News & World Report* count of classes smaller than 50 does not have to change.

If need be, suspend or close all undergraduate minors and all graduate and undergraduate special-emphasis programs. Then suspend or close at least 25 percent of all undergraduate majors. Most colleges offer more programs than students demand and faculty members' energy justify. While closing programs reduces students' choices, it need not prevent them from graduating on time with a fine education.

Suspend or close all nonprofessional master's programs and all doctoral programs that are not your signature programs or not ranked among the top 50 in the nation. Strategically it is important to preserve professional graduate programs that generate positive net revenues, and to secure your signature master's and doctoral programs, provided they bring you genuine national recognition or international distinction. The professional and career advancement of faculty members is at best a secondary effect of, not a justification for, offering an program.

To save jobs, reduce all salaries by a certain percentage. That amount should be higher for well-paid people and lower for people with midlevel salaries. If salary reductions are not possible, use furloughs for staff members and full-time faculty members. Two days of unpaid furloughs per month is roughly a 10-percent reduction in salary costs during the academic year.

Offer employees temporary or partial leave without pay but with full benefits. Some may be able to afford and enjoy that. If your bylaws prevent offering it, then expand the number of sabbaticals and research leaves with partial pay and full benefits.

Reduce debt-service payments by renegotiating long-term debt, seeking a lower interest rate, extending the term of the loan, or, if necessary, changing banks.

Raise institutional revenue by improving student retention through excellent teaching and the best possible quality of service at every level in every program. Set numerical goals. Measure progress. Reward those programs and service providers that reach or exceed targets. Every student who graduates means three fewer have to be recruited.

Increase enrollments by providing tuition rebates or minischolarships for graduate, professional, and adult students for a second course in the same term. Even a 15-percent discount can be a valuable and cost-effective recruiting tool.

Provide cash incentives to schools, departments, and faculty members who exceed targets for enrolling and retaining students, and for graduating them on time.

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

Instead of inputs, focus on the quality of results. For example, create a one-stop service center with stand-up counters, like those at airports and hotels. Train the people who staff it to respond correctly and quickly to at least 80 percent of the questions that students ask, regardless of the topic. Just ending the time-wasting, buck-passing practice of referring students across campus to someone else's office will aid retention and improve student satisfaction.

Offer students workshops and courses on financial management. Help them budget to stay in school.

Lease prime ground-floor spaces in campus buildings to retailers, professional firms (legal, medical, and others), independent nonprofit organizations, and other revenue providers. Classrooms and offices can go on higher floors. Blending the campus with the community can have a beneficial impact on both town-gown relations and student retention.

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

Increase rental revenues by encouraging local governments, nongovernmental agencies, clubs, and cultural groups to use campus recreation fields, arenas, swimming pools, tennis courts, theaters, music venues, galleries, gardens, banquet halls, and meeting rooms.

Collaborate in order to compete more successfully. Join with other institutions to share faculty members, facilities, registration and records functions, security, and parking.

Halve the size of all committees and reduce the number of times any committee is allowed to meet by the same amount. Two essential committees are for assessment, to establish the educational effectiveness of the curriculum – crucial for financial support and accreditation – and for student success, to work on improving retention and graduation rates. The rest, even when they do useful jobs in ordinary times, can still perform with 75 percent fewer human-hours being consumed. Those hours can be put to better use in these tough times.

Plan to capture as many of this fiscal year's dollars as possible and hold them in reserve as a part of a one-time giveback next fiscal year. Ideally, senior administrators would have built up cash reserves from previous years instead of spending all their operating revenue every year.

Provide financial incentives to departments that stay within their budgets or save even more money. Give departmental managers the latitude to move operating money across budget lines and to negotiate key purchases when they can strike the best bargains, regardless of the institution's annual budget cycle. Let them keep year-end positive balances in small reserve accounts, to spend on things they regard as important. If the central administration can't let departments keep such remaining balances, because it needs the money this year, it should at least treat those funds as loans that must be repaid, with interest, when times are better. Do not sweep away those small operating-budget savings, because doing so only encourages everyone to spend down to zero. If overspending does occur, subtract that amount from the unit's forthcoming budget allocation, and then discipline, demote, or fire the manager who overspent. Never reward overspending.

If possible, permit departments and schools to retain any salary money that becomes available if they decide against offering tenure to some candidates. To do otherwise would only punish those with standards and encourage people to make positive recommendations to unworthy candidates just to preserve the salary lines.

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

Renegotiate and reduce employee-benefits-package expenses by increasing the deductible, co-payments, and employee contributions, and decreasing covered services. Review and restructure tuition-remission programs so that they are focused on the goal of retaining faculty and staff members, and not goals of lesser significance to the long-term survival of your institution.

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

Increase enrollments of nearby nontraditional students in adult-education or master's professional programs using hybrid teaching models: miniterms, weekends, off-site locations, summer and evening sessions. Working people with families do not want to travel to campus more than once a week, and with the technology available today, they should not be forced to.

Increase productivity by not giving load credit for any courses with fewer than a certain number of students enrolled. If that number was once eight or 10, move it to 15. Faculty members may wish to teach underenrolled courses, and they should not be forbidden to do so. But that should not obligate the institution to count that as part of the person's teaching load.

Increase productivity by measuring faculty teaching by the number of students for whom final grades are submitted, not by the number of students who happen to be enrolled on census day. That will encourage professors to focus on student success and retention.

Lease excess residence-hall rooms to nonstudents.

To the extent possible, preserve tenured-faculty assets for use when economic times are better by eliminating midlevel administrative positions – in student affairs, academic affairs, the library, student housing, admissions, fund raising, and so on – and temporarily reassigning tenured faculty members with less than full teaching loads to support essential functions in those areas. Decisions over the past years to locate a tenured line in a given department, to fill that line with a given hire, and to reward success with tenure represent efforts to build the institution for the long term.

Declare financial exigency, or whatever in your system must be declared, to permit the layoff of faculty and staff members. Begin this process sooner rather than later, for although it is fraught with difficulty, responsible leadership demands that all reasonable steps be taken to protect the institution from financial failure.

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

Do a detailed energy audit of every building. Reduce HVAC, lighting, water, and sewage expenses by every reasonable means, including better insulation, airflow regulation, window shades and sunscreens, sensor and computer-regulated switches, wattage reduction, flow-control valves, waterless urinals, and supplemental sources of geothermal, wind, and solar energy. Windmills and solar panels may not be the most beautiful devices, but over the long run they can save money and impress potential students and benefactors who look to colleges to lead by example.

In the end, natural selection and market competition being the forces they are, some institutions will not survive financially, no matter what they do. But others can thrive, if they make all the right moves. In life, adaptation is everything.

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