Chapter Six:

The Nature and Role of Budget Processes

Chapter Authored by:
Patrick J. Schloss, PhD
Kristina ‘KP’ Powers, PhD

- Chapter guide created by: The Institute for Effectiveness in Higher Education (IEHE).
The money follows the mission, beginning with the strategic allocation of resources to achieve short- and long-term goals.

This chapter provides general insights into the planning and budgeting process. It discusses general principles that guide the formation of a budget, describes major income sources and covers likely expenditures with an emphasis on matching income to those costs. Highlighted are approaches for including all members of the organization in the budget process. The chapter concludes with an examination of budget strategies that promote entrepreneurship, extending income streams and associated support of the mission.
Chapter 6: The Nature and Role of Budget Processes

Patrick J. Schloss, PhD
Former President
Valdosta State University

Kristina ‘KP’ Powers PhD
President
Institute for Effectiveness in Higher Education
Kristina ‘KP’ Powers, PhD
President – Institute for Effectiveness in Higher Education


Kristina ‘KP’ Powers is President of the Institute for Effectiveness in Higher Education. KP has served in leadership roles in colleges and universities for over 20 years, primarily in the areas of institution accreditation, institutional effectiveness, institutional research, financial planning, and strategy. Her research and practice focus on effective and efficient use of resources to advance higher education organizations.

Dr. Powers also serves as a national IPEDS trainer and has current appointments to the National Postsecondary Education Cooperative (NPEC), the NC-SARA Data Advisory Committee, the Journal of Postsecondary Student Success editorial board, and the SUNY Brockport Dean’s Advisory Council. Throughout her higher education career, Dr. Powers has taught undergraduate and graduate students as well as delivers professional development presentations, workshops and trainings in all modalities (face-to-face, online, and hybrid) on accreditation, institutional effectiveness, institutional research and higher education organization and administration, IPEDS, financial planning, and strategy.

KP earned her doctorate from Florida State University in Educational Leadership and Policy Studies with a concentration in Higher Education Policy, a Master’s in Higher Education Administration from Florida State University, and a Bachelor of Science from the State University of New York, College at Brockport. Her books, Organization and Administration in Higher Education (third edition – 2022), Data Strategy in Colleges and Universities (2019), and Cultivating a Data Culture in Higher Education (2018) are published by Routledge. She has served as issue co-editor and author for New Directions of Institutional Research.
Patrick J. Schloss served as the eighth president of Valdosta State University from 2008 to 2011. He was born in Harvey, Illinois on October 1, 1953.

President Schloss’ academic career includes appointments as a tenured professor and chair at Penn State and the University of Missouri. He is among the most prolific and influential scholars in special education, having authored 20 books and over 100 research publications. Prior to serving at VSU,

Dr. Schloss was provost at Bloomsburg University of Pennsylvania from 1994 to 2004, and president at Northern State University in Aberdeen, South Dakota from 2004 to 2008.
Chapter Outline

1. Introduction
2. Importance of Planning and Budgeting
3. Money Follows Mission
4. Institutional Assessment, SWOT Analysis, Strategic Planning and Resource Allocation
   a. Identify Funds and Expenditures
   b. Match Fund Source Restrictions with Funding Needs
   c. Promote Transparency of Income and Expenditures
   d. Institution-Wide Focus
   e. Adopt Modified Zero-Based Budgeting
   f. Create a Strategic Initiative Pool
   g. Provide for Sufficient Budget Flexibility to Address Probable Contingencies
   h. Deferred Enrollment and Income
   i. Holding Financial Reserves
   j. Loans from Other Fund Sources
5. Conclusion
Common Budget Models

**Historical Funding**
An institution receives an appropriation and tuition revenue based on the amount received in the previous years.

**Formula Funding**
Likely to be used in combination with other models. For example, the formula that determines the funding an institution receives can be based on the previous year.

**Zero-Based Funding**
This is the most dynamic budget model. It requires that all allocations from previous years be set at zero.
No single budget principle is more important than the philosophy characterized by the phrase: “Money follows mission.”
Value of SWOT

• Well-run institutions share one predominant feature. The faculty and administrators frequently assess strengths, weaknesses, opportunities and challenges.

• Formally described as a SWOT Analysis, this kind of assessment can be valuable in:
  - Institutional Assessment
  - Strategic Planning
  - Resource Allocation
Key Chapter Takeaway

1. Tuition Payments
2. Tax Appropriations
3. Auxiliary Income
4. Extramural Funds
5. Foundation Funds
Budget Process Considerations

- Match fund source restrictions with funding needs
- Promote transparency of income and expenditures
- Maintain an Institution-Wide Focus
- Adopt Modified Zero-Based Budgeting
- Create a Strategic Initiative Pool
- Provide for sufficient budget flexibility to address probable contingencies
Engineering Flexibility into the Budget

- Deferred enrollment and income
- Holding Financial Reserves
- Loans from Other Fund Sources
Discussion Prompts
Discussion Prompts

1. Describe how the budget process works at your institution. What two strategies described in this chapter would you recommend leadership employ to improve the financial health and stability of the institution?

2. Who should be involved in the university budgeting process? Why? Why is it important to have each of those individual/positions involved?

3. What does “money follows mission” mean? Is the spirit of this concept used at your institution? Why? Why not? Should it be used? Why? Why not?
Discussion Prompts

4. How can a modified version of zero-based budgeting help an administrator not only balance the budget, but redirect money to those things that are closer to the mission? What challenges may arise from using a modified zero-based budgeting model?

5. From the chapter section on funds and expenditures, identify one item that could be added and one that your institution does not have. Discuss the strengths and weaknesses of each.

6. If you were an administrator during a fiscal crisis at your institution, what financial strategies would you use to mitigate the problem so that students can still progress in their courses and people do not lose their jobs?
7. How does the transparency of the institutional budget through an institution wide council require the vice president for finance to work differently with stakeholders? What are the pros and cons of this model?

8. Identify three creative ways to handle budget challenges. How would you implement them? What challenges and opposition would you face in doing so?

9. What role do system offices, state legislatures, parent companies, boards of trustees, etc., play in the budgeting process?
10. In a budget shortfall, one strategy may be to admit all students on the wait list. What are the strengths and weaknesses of using that option? What other enrollment strategies that you could use if your institution does not have a wait list (e.g., lower admissions requirements)?
Chapter guide created by: The Institute for Effectiveness in Higher Education (IEHE).