The Impact of COVID-19 on Higher Education Budget-Making Decisions

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ABSTRACT

Institutions of higher education in the United States are facing significant financial challenges, exacerbated by the COVID-19 pandemic. These challenges include declining enrollment and revenue losses from traditional sources like net tuition, state funding, and auxiliary services. Despite federal relief efforts, colleges and universities must make difficult decisions about budget priorities and cost-cutting measures.

The pandemic has disrupted budget-making decisions, prompting concerns about long-term financial sustainability. Federal financial relief has provided some support, but institutions still face difficult decisions regarding budget priorities and cost-cutting measures.

The Theory of Punctuated Equilibrium offers a framework for analyzing the impact of the pandemic on higher education budgets, emphasizing the need for flexibility and innovation in budgetary processes to ensure financial sustainability in the post-pandemic era. It can be applied to understand how the pandemic has disrupted budget-making, leading to significant changes and the adoption of new strategies. Institutions must adjust to stabilize finances, which involves diversifying revenue, re-evaluating budget processes, and making difficult decisions to ensure long-term financial health.

Keywords: COVID-19, global pandemic, higher education, budget-making decisions, net tuition revenue, auxiliary services, state funding, HEERF, CARES Act, Punctuated Equilibrium

INTRODUCTION

Problem Statement

Institutions of higher education in the United States are facing significant financial challenges, which have been intensified by the COVID-19 pandemic. These challenges stem from a decline in enrollment and associated revenue losses from reliable streams such as net tuition, state funding, and auxiliary services.

The global pandemic has disrupted budget-making decisions and raised long-term financial sustainability concerns, particularly for institutions already facing financial difficulties. Despite federal financial relief efforts, colleges and universities must make difficult decisions about budget priorities, resource allocation, and cost-cutting measures. As they navigate these challenges, institutions need to reevaluate their budgetary processes, become more flexible and responsive to changing circumstances, and consider new approaches to ensure financial sustainability in the post-pandemic era.

This research aims to analyze the impact of the global pandemic on institutions of higher education based on the Theory of Punctuated Equilibrium. This analysis intends to show how the pandemic has altered revenue sources for higher education institutions, the effectiveness of federal financial relief, the outlook regarding ongoing revenue losses, and strategies for rebuilding financial health in these challenging times.

Background

The COVID-19 pandemic has profoundly affected higher education budgets, leading to declines in enrollment, revenue losses from auxiliary services, net tuition, and state funding, as well as increased costs for health, safety, and necessary technology measures. Despite initial federal relief funding, such as the CARES Act and HEERF, institutions of higher education continue to face persistent and residual long-term financial effects of the pandemic.

Traditional revenue sources for colleges and universities include net tuition revenue, state funding, and auxiliary revenue. However, many institutions struggle to increase net tuition revenue due to rising tuition discount rates and declines in enrollment and retention. State funding, which is critical for public institutions, has been uncertain and reduced during the pandemic, impacting all institutions. Auxiliary services revenue, typically stable, has been significantly impacted by campus closures and canceled events.

The pandemic has forced colleges and universities to adapt quickly, incurring unexpected costs for testing, PPE, technology upgrades, and cleaning protocols. These changes have required a shift in budget-making decisions and operational plans. Understanding these financial implications is crucial for navigating the challenges facing the higher education sector.

The financial challenges faced by colleges and universities in the wake of the COVID-19 pandemic call for a multi-faceted approach, focusing on both short-term measures and long term and strategies needed to recover. Institutions are exploring ways to diversify revenue streams, prioritize financial sustainability, and implement cost-cutting measures.

The Theory of Punctuated Equilibrium suggests a framework for understanding the impact of the pandemic on budget-making decisions in higher education. It suggests that during periods of stability, budgetary decisions are routine and incremental, but significant external events, like the pandemic, can disrupt this stability, leading to a reassessment of priorities and significant budgetary changes. The theory also emphasizes the need for flexibility, responsiveness, and innovation in budgetary processes to navigate the post-pandemic era successfully.

LITERATURE REVIEW

Institutions of higher education in the US face significant financial challenges that have been exacerbated by the COVID-19 global pandemic. These challenges are due to several circumstances including enrollment decline and associated revenue losses from streams of income that have traditionally been reliable for colleges and universities: net tuition, state funding, and auxiliary services (Kelchen et al., 2021). Because of this, colleges and universities are at a critical juncture in budget-making decisions.

The shock of the global pandemic has contributed to the disruption of budget-making decisions for institutions of higher education. It also has contributed to long-term financial sustainability concerns, especially for those institutions that were already facing financial challenges before the pandemic.

Despite federal financial relief provided through the CARES Act and the Higher Education Emergency Relief Fund (HEERF), the pandemic has forced institutions to make difficult decisions about budget priorities, resource allocation, and cost-cutting measures. Institutions have had to reevaluate their budgetary processes, become more flexible and responsive to changing circumstances, and consider new approaches to ensure financial sustainability in the post-pandemic era.

The purpose of this research is to explore, in light of the Theory of Punctuated Equilibrium, how the global pandemic has dramatically altered the traditionally stable revenue sources for institutions of higher education, how effective the federal government's financial relief has been, what the outlook is regarding ongoing revenue losses, and how colleges and universities might rebuild their financial health amidst these challenging times.

Traditional Streams of Higher Education Revenue

The COVID-19 pandemic has had a significant impact on higher education budgets. These include declines in enrollment, revenue losses from auxiliary services, net tuition and state funding, as well as increased costs for health, safety, and necessary technology measures (Rosinger et al., 2022). Despite initial and temporary federal relief funding, such as the CARES Act and HEERF, institutions of higher education face persistent and residual long-term financial effects of the pandemic.

The American higher education landscape is diverse. According to Kelchen et al. (2021), more than 6,000 public, private nonprofit, and for-profit colleges receive federal financial aid in the US system. Furthermore, these institutions employ over 3 million full-time equivalent staff, enroll nearly 25 million students, generate over $600 billion in revenue, and carry over $300 billion in debt annually (Kelchen et al., 2021).

To support the functions of these schools, higher education institutions have traditionally relied on three main revenue sources, including net tuition revenue, state funding, and auxiliary revenue.

Net Tuition Revenue

Net tuition revenue, which is tuition and fees minus institutional grant aid to students, provides a significant revenue source for colleges and universities. This has traditionally been one of the main sources of revenue that impacts their institutional budget-making process, which is why the efforts for recruitment and retention of students often is key.

However, many colleges struggle to increase net tuition revenue in the wake of the COVID-19 pandemic. This is due to rising tuition discount rates and declines in enrollment and retention (Kelchen et al., 2021). To understand the context, consider that the median tuition discount for nonprofit private colleges "rose from 36% in 2010 to 48% in 2019, placing colleges under financial stress" (Kelchen et al., 2021). Furthermore, many private colleges have continued to engage in a "high-price high-aid mode" that was their norm before the pandemic (Carnevale, 2020).

This type of discounting keeps their tuition rates high to indicate to the market that they offer a product of high quality. Sometimes they offer "discounts as high as 60 percent to selected applicants" (Carnevale, 2020). The downside of this, however, is that the net tuition they collect is actually quite low.

At the same time, a decline in enrollment, although not exclusively due to the pandemic, has contributed to the reduction in tuition revenue. Kelchen et al. (2021) reports an overall enrollment decline "by 2.5% between fall 2019 and fall 2020, with much larger losses among community colleges (10%), first-time students (13%), and new international students (43%)." These losses are difficult to recoup and only add to the financial concern at many institutions.

Furthermore, particular institutions faced some of the most impactful enrollment changes. Many institutions "that disproportionately serve students of color and students from low-income backgrounds have seen declines in enrollment since the pandemic began" (Goldberg, 2021). These declines outpaced those of schools that serve white peer institutions, further concerning institutions in this category.

State Funding Revenue

State funding is the second mainstream of income for colleges and universities. State funds support both public and private institutions of higher education, with more direct and substantial funds supporting public schools as compared to private.

State funding is a major source of revenue for public institutions and is used to support operating expenses that include salaries and academic program expenses. State funding often helps subsidize tuition costs for in-state students attending public institutions, making higher education more affordable for residents. State funding may also provide for capital projects and research initiatives (Oliff, 2019).

In contrast, private institutions benefit from state funding for financial aid for students as well as funds for programs that are aligned with workforce development needs. Private institutions may receive state funding to support partnerships and collaboration with public entities, as well as research initiatives (Oliff. 2019).

Overall, state funding plays a critical role in supporting both public and private colleges and universities. Because of that, when state funding cuts due to the COVID-19 pandemic happened, all institutions were impacted.

Generally, state funding for public higher education is uncertain during difficult financial times due to large cuts in appropriations to higher education as states try to balance budgets (Kelchen et al., 2021). Higher education funding was significantly affected by the pandemic, with many states cutting funding for colleges and universities in response to their own larger budget constraints.

According to the report *Higher Education and State Budgets: First Lessons from the Pandemic* (2021), higher education is "one of the most discretionary parts of state budgets, often withstanding the worst of state budget cuts since institutional revenue can be made up with tuition hikes." This rationale, however, is faulty in the post-pandemic era that is marked by tuition losses.

Since the reality is that most institutions have not been able to make up the difference in state funding through tuition revenue, these state budget cuts could have long-term negative effects on higher education institutions and students (Jackson & Saenz, 2021). These cuts have created challenges for higher education institutions in maintaining quality and affordability in the post-pandemic era.

Auxiliary Services Revenue

Auxiliary services revenue, the third traditional source of income for colleges and universities, encompasses funds from housing, dining, athletics, and programs and conferences. According to Ketchen et al. (2021), "While auxiliary revenue sources are typically among colleges' most stable budget lines, this is not the case during the current pandemic." The pandemic led to significant losses in auxiliary services revenue, particularly from campus closures and canceled events.

As campuses closed, they refunded housing and dining plan funds to students. In addition, revenue expected from programming and events also did not come to fruition during the shutdown and slow return to normal operations.

As an area of a university typically expected to be self-sustaining plus revenue-producing, auxiliary services have been dramatically impacted by the COVID-19 pandemic. In turn, this has impacted the financial health of universities across the US.

Prior to the pandemic, many colleges and universities relied on these established budgetary structures and processes based on relatively stable enrollment patterns, predictable revenue streams, and established expenditure patterns. However, the pandemic led to an unexpected disruption to these patterns. This, in turn, has caused a rapid and significant shift in higher education budgets.

Higher Ed Response to the Pandemic Crisis

Overall, the financial implications of the COVID-19 pandemic on higher education are significant, with colleges facing challenges in maintaining revenue sources and supporting students through graduation. Understanding these financial implications is crucial for navigating the challenges facing the higher education sector.

The pandemic forced colleges and universities to quickly adapt to new circumstances. Institutions had to incur unexpected costs related to the pandemic, such as expenses for testing, personal protective equipment (PPE), technology upgrades for online learning, and enhanced cleaning protocols (Kelchen et al., 2021). These additional financial strains only exacerbated the lack of revenue produced by tuition, state funding, and auxiliary services. These changes required a shift in the budget-making decision process. Key changes include some of the following.

First, the transition to online learning required institutions to invest in technology and infrastructure to support remote learning. This included purchasing software and upgrading internet bandwidth. An additional cost related to this transition is training needed for faculty and staff to be able to effectively utilize the technology and software. These changes have mostly been received positively by students, with 75% of students reporting that they believe their schools managed the shift well (Global Strategy Group, 2020).

In addition, at the height of the pandemic, colleges and universities had to pivot some of their operational plans to accommodate this new reality. Institutions had to comply with public health guidelines, such as reducing class sizes, reconfiguring classroom spaces, and adjusting academic calendars (Kelchen et al., 2021). These changes often required additional resources that impacted budgetary planning.

Furthermore, the COVD-19 pandemic caused colleges and universities to have to implement health and safety measures to protect students, faculty, and staff. These include such things as installing plexiglass barriers, providing personal protective equipment (PPE), and increasing cleaning and sanitization efforts.

COVID-19 Related Financial Relief Efforts

In response to the significant disruption in traditional revenue streams and increased expenditures that resulted from the global pandemic, the federal government included financial relief for colleges and universities through the Coronavirus Aid, Relief, and Economic Security Act (CARES) stimulus package. This bill allotted "$2.2 trillion to provide fast and direct economic aid to the American people negatively impacted by the COVID-19 pandemic" (*Office of Postsecondary Education*, 2020). Of that money, approximately "$14 billion was given to the Office of Postsecondary Education as the Higher Education Emergency Relief Fund, or HEERF" (*Office of Postsecondary Education*, 2020). Combined, CARES and HEERF intended to alleviate the acute and significant financial strain experienced by colleges and universities as well as students.

Overall, between March 2020 and May 2021, the Institute of College Access and Success (2021) reports, "the federal government enacted three massive emergency relief bills that injected a total of $75 billion into higher education." While this funding, as described below, has substantially assisted colleges and universities, it is not a long-term solution to the financial concerns.

Coronavirus Aid, Relief, and Economic Security Act (CARES)

The CARES Act stimulus package, passed in March 2020, is a comprehensive economic relief package aimed at addressing the impact of the COVID-19 pandemic. Key provisions of the CARES Act provided emergency funding to colleges and universities intended to help offset the financial losses.

First, the CARES Act allocated $14 billion for emergency financial aid grants to students (*Office of Postsecondary Education*, 2020). These grants were intended to help students cover expenses related to the disruption of campus operations due to the pandemic, such as housing, food, course materials, technology, healthcare, and childcare.

Next, the CARES Act provided funding to institutions of higher education. Additionally, according to the report published by the *Office of Postsecondary Education* (2020), the CARES Act allocated $1 billion in funding specifically for minority-serving institutions, including Historically Black Colleges and Universities (HBCUs), Tribal Colleges and Universities (TCUs), and Hispanic-Serving Institutions (HSIs). These funds recognized the unique challenges faced by these institutions and their student populations.

Overall, this funding helped institutions cover unexpected pandemic-related expenses such as refunds for room and board, technology upgrades for online learning, and other COVID-19-related costs. In addition, a portion of the CARES Act funding was allocated for emergency financial aid grants to students facing financial hardships due to the pandemic (Paydar, 2024).

This helped students cover expenses such as housing, food, and course materials. It also provided institutions with flexibility in how they could use the funding, allowing them to prioritize the most pressing needs of their institutions.

Higher Education Emergency Relief Fund (HEERF)

After the initial CARES Act, the Higher Education Emergency Relief Fund (HEERF) established a federal program to provide emergency financial aid grants to colleges and universities and their students to address the impact of the COVID-19 pandemic. HEERF was established under the CARES Act (Paydar, 2024).

HEERF funding is allocated to institutions based on a formula that considers factors such as the number of full-time equivalent students who are Pell Grant recipients and the total number of full-time equivalent students. Institutions are required to use at least 50% of their funding for emergency financial aid grants to students (Paydar, 2024).

HEERF has provided funding to institutions of higher education to cover expenses such as refunds for room and board, technology costs associated with a transition to distance education, and faculty and staff training. According to Paydar (2024), in addition to institutional funding, HEERF provides emergency financial aid grants directly to students facing financial hardships due to the pandemic.

These grants can be used by students to cover expenses such as housing, food, course materials, technology, healthcare, and childcare. This includes purchasing software licenses, upgrading internet bandwidth, and providing training for faculty and staff.

Furthermore, funding could be allocated for health and safety measures on campus. Overall, HEERF has provided critical financial support to colleges, universities, and students during a time of unprecedented disruption caused by the COVID-19 pandemic (Paydar, 2024).

Limitations of CARES and HEERF

While the CARES Act and HEERF provided much-needed financial assistance to colleges and universities during a challenging time, they also highlight some of the complexities and limitations of providing emergency relief to higher education institutions during a crisis.

First, there were challenges in the distribution of the CARES Act. Some institutions ended up receiving more funding than others, which led to disparities in how effectively institutions could respond to the financial impact of the pandemic (Davis & Emery-Arras, 2021).

Next the CARES Act funding was a one-time only allocation, yet the financial impact of the pandemic for colleges and universities is ongoing. Once CARES Act funding was exhausted, many institutions continued to face financial challenges related to the pandemic. On top of that, the CARES Act included limitations on expenses eligible for reimbursement. This posed a challenge to some institutions' ability to meet their pressing needs (Davis & Emery-Arras, 2021).

Finally, the pandemic created a high level of uncertainty for colleges and universities to plan for future financial stability (Pew Charitable Trust, 2021**)**. While federal relief funding has provided some temporary assistance to states and higher education institutions, it is not enough to address the long-term funding challenges faced by higher education (Jackson & Saenz, 2021).

Higher Education Revenue Losses

Despite the initial governmental support through federal stimulus packages, the COVID-19 pandemic has forced colleges and universities to experience billions of dollars in revenue losses. Overall, the COVID-19 pandemic has caused significant financial distress for institutions of higher education; this requires colleges and universities to understand and address the financial implications of the pandemic in order to stabilize after such a significant external factor.

Projections show that public colleges and universities will continue to face significant losses of appropriation funding in the next five years; however, the severity and prevalence of potential losses in other revenue streams vary based on different post-pandemic economic recovery scenarios (Kelchen et al., 2021). To explain how these losses may play out, consider the following category-specific circumstances.

First, there is a consideration of annual revenue losses by category of revenue streams. State and local appropriations losses are moderate but expected to increase substantially through 2025 (Kelchen et al., 2021). Next, Net Tuition Revenue losses are projected to be more severe in 2020 than in the future, assuming the recovery continues along its current path. Then, Auxiliary Services Revenue loss is projected to be about $11.6 billion in 2020 and nearly as much as state and local appropriations through 2025 (Kelchen et al., 2021).

Next, projected losses can be considered based on cumulative revenue losses by these same categories. First, Net Tuition Revenue losses are estimated to be about $13.6 billion to $16.3 billion in 2020 alone, and about $48 billion to $57.3 billion over the subsequent six years (Kelchen et al., 2021). Additionally, state and local appropriations losses are estimated to be near $17.2

billion between 2020-2025; finally, Auxiliary Services Revenue can expect to see total losses of about $40.6 billion over the next six years (Kelchen et al., 2021). This amounts to total revenue losses in the higher education sector of between $71 billion and $115 billion over the next five years (Kelchen et al., 2021).

Finally, estimated losses can be considered based on institution type. Public and private nonprofit institutions are projected to experience moderate to severe financial distress. Large institutions are more likely to experience moderate cumulative losses, while smaller institutions are more likely to see projected losses greater than half of their 2019 revenue (Kelchen et al., 2021). HBCU institutions are projected to have 25% or more cumulative six-year revenue losses (Kelchen et al., 2021).

Overall, many institutions of higher education already experiencing significant fiscal distress may continue to face challenging decisions due to additional revenue losses through 2025. Considering this, colleges and universities need to be adaptive in their budgetary planning to address the challenges posed by the COVID-19 pandemic that ensures their financial sustainability during this challenging time.

ANALYSIS

Colleges and universities must take a multi-faceted approach to recover from the financial losses of COVID-19, focusing on both short-term measures to address immediate needs and long-term strategies to ensure their financial viability in the future. Based on the research available to date, there are several trends emerging that require analysis. First, institutions are exploring ways to diversify their revenue streams to reduce reliance on traditional sources such as tuition, state funding, and auxiliary services. Next, colleges and universities are increasingly prioritizing financial sustainability due to the challenges posed by the COVID-19 pandemic. Third, colleges and universities are implementing cost-cutting measures and increasing operational efficiencies to reduce expenses and address budget shortfalls.

To thoroughly analyze these emerging trends, the Theory of Punctuated Equilibrium is the most applicable theory to the impact of the COVID-19 global pandemic on budget-making decision in in higher education (Khan & Hildreth, 2002). According to Punctuated Equilibrium, budgetary decisions typically are driven by an agenda-setting process, in which certain issues are prioritized over others based on their salience, feasibility, and legitimacy (Khan & Hildreth, 2002). Specifically, budget-making decisions are influenced by specific courses of events in specific, incremental timeframes.

The Theory of Punctuated Equilibrium, according to Khan and Hildreth (2002), points out that during periods of stability, budgetary decisions are made based on existing priorities and routines. However, when a significant external event occurs, such as the COVID-19 global pandemic, the agenda-setting process is disrupted and leads to a period of instability and uncertainty.

During periods of instability, decision-makers are forced to reassess their priorities and that may lead to significant budgetary changes. This can result in the adoption of new budgetary strategies.

Once the instability has been absorbed and a new equilibrium is reached, budgetary decisions become more stable and predictable again too.

During times of crisis, swift adjustments to budget-making may need to be applies to attend to urgent needs. These adjustments may involve significant changes in spending priorities, revenue generation, and budgetary processes. This is true for the post-pandemic situation for colleges and universities facing significant change and needing to stabilize.

As noted in the Theory of Punctuated Equilibrium, during times of stability, budgetary decisions are routine, based on predictable priorities, and only apply incremental changes. This is true of the budgets for colleges and universities prior to the COVID-19 pandemic. Specifically, they relied on three relatively consistent streams of revenue: net tuition, auxiliary services, and state funding. Each of these revenue streams was relatively predictable with minor shifts from year to year. This resulted in a relatively stable budget-making process for colleges and universities.

However, when the global pandemic happened without warning or time for pre-planning, it represented a significant external disruption or crisis that severely impacted the equilibrium of traditional higher education budget-making. As a result, the colleges and universities had to pivot. They experienced significant revenue losses from refunds for housing and meal plans to others from cancelled events and programs. Simultaneously, schools had to attend to many unexpected expenses such as technology upgrades, protective gear, and other required health and safety measures. Subsequently, institutions also have had to contend with the expenses to bring students back to campus and provide the necessary support such as advising and mental health support. These have only added to the expenditures that institutions may not have budgeted for previously.

In the short term, governmental funding through stimulus and recovery efforts assisted colleges and universities with some of the initial and unexpected expenses. They also assisted students in need to help them continue their education. However, these funds were time-limited and intended to cover specific expenses. In the short term, that assistance did help to keep many institutions functioning; however, as this source of revenue fades, colleges and universities must make other financial plans to move forward. These funds were not intended to provide long-term financial assistance.

Despite the initial support of stimulus funding, colleges and universities need to make changes to return to a state of stability and equilibrium in the post-pandemic world. Specific efforts include diversifying revenue streams, such as strengthening fundraising efforts, expanding online and continuing education programs, and exploring new partnerships and collaborations. Institutions of higher education can no longer rely solely on the three traditional streams of revenue, tuition, auxiliary services, and state funding, as they did in the past. These are no longer considered reliable and consistent enough to make long range budgetary plans.

Furthermore, professional areas such as development and alumni networks are becoming ever more essential to the financial bottom line of colleges and universities. By strengthening fundraising, donor relationships, and greater involvement of alum in the university, colleges and universities can open and increase this stream of revenue. This is particularly important for schools that do not have large and stable endowments.

In addition, schools need to re-evaluate budgetary processes, becoming more flexible and responsive to changing circumstances. They also need to consider new approaches to ensure financial stability in the post-pandemic era.

Complementary to these new and creative financial initiatives, colleges and universities may need to continue hiring freezes, reduce administrative costs, and consolidate or eliminate underperforming programs. These present some of the most challenging aspects of the budgetary process because they impact all areas of campus: staff, students, and faculty. None of these options presents an easy way to maintain a stable budget; in fact, they all present difficult changes that need to be implemented for their long-term financial health.

Considering the Theory of Punctuated Equilibrium, institutions of higher education must consider how they will allocate scarce resources, which "implies choice between potential objects of expenditures, trade-offs" (Khan & Hildreth, 2002). In essence, this means that the limitation on funding requires that there must be some critical trade-offs. During stable times, these trade-offs often go undetected because they are small and incremental. However, in times of crisis, such as the global pandemic, the trade-offs are more significant, which require policy revisions (Khan & Hildreth, 2002).

This framework can be applied to the current budgetary status of colleges and universities. For instance, the difficult decisions that need to be made between cost-cuts in staffing and operations on campuses may seem to be trade-offs. The reality of the scarcity of resources for colleges and universities is forcing these schools to have to choose. Because these choices are significant, they do not go unnoticed as they might have been if they were incremental. Until these schools achieve more long-term stability again, this will continue to be their reality for budget-making decisions processes.

RECOMMENDATIONS

Colleges and universities can recover financially from the COVID-19 pandemic; however, this recovery requires difficult budgetary and organizational decisions. By implementing various strategies to stabilize their budgets and generate revenue, though, colleges and universities can move beyond the pandemic into a successful future. Key themes that have emerged include the need to diversify revenue streams, strengthen fundraising efforts, continue cost-cutting measures by increasing operational efficiencies, implement creative enrollment strategies, and expand financial aid support to students.

First, colleges and institutions need to continue implementing cost-cutting measures to reduce expenses. To reduce budget shortfalls, higher education laid off large numbers of employees. "Higher education employment fell by 13% between February 2020 and February 2021, wiping out more than a decade of employment increases" (Bauman, 2021). These positions likely cannot be recovered in the short-term; other new positions should only be approved in areas that have income-generating potential in the short-term as well.

To continue reducing expenses, institutions should strategize to determine how they can consolidate efforts and eliminate unnecessary expenses. It is expected that cost-cutting measures will continue to be the more typical response to financial challenges. Institutions also may increase consolidation activity, particularly among smaller institutions (Rosinger et al., 2022).

These options can include continuing a hiring freeze, reducing administrative costs, and consolidating or eliminating underperforming programs. Colleges and universities also can improve operational efficiencies by streamlining administrative processes and utilizing technology to reduce costs. These choices are critical and must be made strategically by considering both short-term and long-term goals that benefit both the institution and its students.

Next, by diversifying revenue streams, institutions can reduce reliance on tuition revenue, state funding, and auxiliary services as they have in the past. Diversification can include increasing fundraising efforts and donor relationships, expanding online and continuing education programs, and exploring new partnerships and collaborations. (Bryant et al., 2023). These are critical strategies for the long-term financial health of institutions.

Next, institutions should focus on enrollment strategies to attract and retain new populations of students. This requires some calculated investment, but the return could be worthwhile. Efforts could include targeted marketing campaigns, enhancing student support services, and developing new and creative academic programs to meet student needs (Bryant et al., 2023). Although these efforts may require short-term investment, the longer-term benefit of increased enrollment, and in turn increased alumni and potential donors, would be worth it.

Tied with these enrollment strategies is also an increase in student financial support through aid and scholarships. Institutions can increase financial aid and scholarship offerings to attract students, particularly those facing financial hardships due to the pandemic (Bryant et al., 2023). Combining this with other strategic efforts may not only increase enrollment but also retain students through graduation.

Finally, it is important for colleges and universities to engage not only in short-term recovery efforts but also in long-term financial planning to ensure their financial sustainability in the face of future challenges (Rosinger et al., 2022). This can include developing contingency plans and building up financial reserves, which reinforces the need for stronger and more creative fundraising efforts.

These combined efforts could provide the multifaceted approach needed to help colleges and universities return to a state of equilibrium. Returning to stability also means the potential for more strategic long term financial planning with contingency plans that can be implemented in the face of future crises.

SUMMARY

In summary, institutions of higher education in the US are grappling with significant financial challenges, particularly exacerbated by the COVID-19 pandemic. These challenges stem from declining enrollment and associated revenue losses, impacting traditional income streams like net tuition, state funding, and auxiliary services. The pandemic has disrupted budget-making decisions, raising concerns about long-term financial sustainability, especially for institutions already facing financial difficulties.

Federal financial relief, including the CARES Act and the Higher Education Emergency Relief Fund (HEERF), has provided some support. However, colleges and universities still face difficult decisions regarding budget priorities, resource allocation, and cost-cutting measures. They must also adapt their budgetary processes to be more flexible and responsive to changing circumstances, considering new approaches for financial sustainability post-pandemic.

Before the pandemic, institutions relied on stable enrollment patterns and predictable revenue streams. However, the sudden disruption caused by COVID-19 necessitated rapid and significant shifts in budget planning. Institutions had to invest in technology for online learning, comply with health guidelines, and implement safety measures, incurring unexpected costs.

The CARES Act and HEERF provided critical financial assistance, including emergency grants to students and funding for institutions. However, challenges such as uneven distribution and limitations on eligible expenses highlight the complexities of providing emergency relief. Despite these efforts, colleges and universities are projected to face significant revenue losses over the next few years, requiring adaptive budgetary planning.

To recover financially, institutions need to diversify revenue streams, strengthen fundraising efforts, cut costs, implement creative enrollment strategies, and expand financial aid support. Long-term financial planning is crucial for ensuring sustainability in the face of future challenges. By adopting these strategies, colleges and universities can navigate the financial implications of the pandemic and position themselves for success in the future.

The Theory of Punctuated Equilibrium, as applied to higher education budget-making decisions, highlights how external events, such as the COVID-19 pandemic, has disrupted their stable budgetary processes. This theory suggests that during stable periods, budget decisions are routine and incremental, based on existing priorities. However, significant events can lead to instability, forcing decision-makers to reassess priorities and adopt new strategies.

The pandemic, as a major external disruption, caused colleges and universities to pivot, leading to revenue losses and unexpected expenses. Governmental funding provided short-term relief, but institutions need to diversify revenue streams, re-evaluate budget processes, and make difficult decisions for long-term financial health. The theory emphasizes the need for institutions to make trade-offs and critical choices in resource allocation, especially during times of crisis, to ensure financial stability and sustainability.

Based on the literature available to date, there are several trends emerging that require further analysis. First, institutions are exploring ways to diversify their revenue streams to reduce reliance on traditional sources such as tuition, state funding, and auxiliary services. This includes strengthening fundraising efforts, expanding online and continuing education programs, and exploring new partnerships and collaborations.

Next, colleges and universities are increasingly prioritizing financial sustainability due to the challenges posed by the COVID-19 pandemic. This includes re-evaluating budgetary processes, becoming more flexible and responsive to changing circumstances, and considering new approaches to ensure financial stability in the post-pandemic era.

Third, colleges and universities are implementing cost-cutting measures and increasing operational efficiencies to reduce expenses and address budget shortfalls. This includes freezing hiring, reducing administrative costs, and consolidating or eliminating underperforming programs.

Overall, institutions of higher education are at a critical juncture. They must be proactive in their approaches to budget-making and be willing to adjust and adapt to the new reality in higher education. The global pandemic exacerbated many underlying financial concerns already on the horizon for colleges and universities. What worked in the past is not working today; this calls for creative and adaptive approaches to financial management and budgeting to provide for long-term financial sustainability.

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