

## **Extended Education at Evergreen: A Financial Analysis**

The purpose of this document is to present an analysis of potential revenues and costs associated with a possible extended education program. The words “potential” and “possible” indicate the difficulty of this task. Extended education at Evergreen is still in the proposal stage. The college has limited experience upon which to base this analysis. Further, extended education is such a potentially mixed bag of tricks that it is impossible to anticipate the eventual make-up of a fully developed program. For these reasons, our work here can only be indicative. We have tried to make reasonable assumptions and to err on the conservative side in our estimates. And we have tried to present alternatives, when possible, to indicate sensitivities and risks associated with such a program.

To simplify our work here we have focused on two examples of extended education programming. The main one is a standard course, equivalent to four credits – four hours of contact per week over a ten-week academic quarter. We have chosen this example because it is one that most people on campus can relate to, because we have experience with such courses through summer school and evening/weekend studies and because our preliminary work indicates that courses like this may be a major component of extended education. These courses might or might not award academic credit or continuing education units, depending on circumstances. For our purposes here we have assumed that the examples would bear four credits.

The other example is a one-day workshop, generally not credit-bearing. We have had a number of inquiries about one and two-day workshops, and experience at other institutions suggests that this might be a popular element of extended education programming at Evergreen.

Before presenting the analysis it is appropriate to comment briefly on what it means to be self-supporting in the context of extended education. Since EE programs will not be subsidized by the state we will have to think differently about their finances than we do with our general curriculum. The first thing that comes to mind is that we will have to charge more for our services under EE. There is no way that we could apply our usual and customary in-state tuition rates and break even. But increased fees can be moderated by attention to the other side of the ledger – controlling costs. If we restrict EE participants’ access to campus services, we can also restrict their incremental impact on campus costs. Most EE participants will not be interested in academic advising, student health services and student activities. In other cases, we may have to take steps to screen out EE participants from using some services, such as the computer center or interlibrary loan.

The financial analysis begins with identification and discussion of fees and cost elements associated with extended education. We then develop simple revenue/cost models for courses and workshops. We conclude with an illustration of the overall revenues and costs for an extended education program at three levels of activity and at varying average enrollment levels.

## Extended Education Revenues and Costs

### REVENUES

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#### Participant Fees (a)

While it makes sense to begin here in explaining EE finances, it is important to realize that setting fees is, analytically, the last step after estimating all costs. Fee levels would then be set to cover those costs plus a return to the college, subject to the realities of the market place. For purposes of this analysis we have assumed fees for a course to be \$150 per credit. This falls within the range of 2003-04 regular undergraduate tuition - \$120 per credit – and graduate tuition - \$200 per credit. (Note: nonresident tuition rates are \$444 and \$610 for undergraduates and graduates, respectively.) The “yield” from regular students is lower than the per credit tuition rate, since tuition is fixed in the range from 10 to 18 credits. Thus a full time, resident, undergraduate student with 16 credits pays only \$75 per credit.

The assumption here, \$150 per credit, is consistent with EE charges at other public institutions. The University of Washington, for example charges roughly \$160 – \$165 for credit courses and \$100-\$150 for non-credit programs.

With respect to a one day workshop, the going rate, comparing to a variety of other organizations, seems to fall within the range of \$100 to \$150 per participant. For our purposes here we have assumed that we would charge \$125 per participant.

These fees would be adjusted up or down, depending on the nature of the course or workshop and depending on “what the market will bear.” Offerings that are by their nature high in cost – computing and media courses, for example – would have higher fees to cover the costs.

Setting the fees to the market may be controversial on campus, since we usually do not think this way. A set rate for all offerings is a possibility, and the analysis below assumes such a rate. Allowing the rate to fluctuate with market conditions has a couple of advantages. First, it might yield a greater return to the college. Second, the more lucrative offerings might make it possible to sponsor some programs that are less profitable, thus enhancing the public service aspects of EE.

#### Registration Fees (b)

While most overhead charges are covered below in the section on indirect costs, there are some offices of the college that will be more impacted by EE than others, notably Registration and Records and Student Accounts. All EE students will pass through those offices, at least in a virtual sense, and workloads of those staff will increase. At the request of managers of those two offices we are including in this analysis a registration fee of \$30 per participant. These fees would be on top of per credit charges and would be passed directly to the two offices affected. This is common practice with EE programs elsewhere, and the amount is the same as what the University of Washington charges.

There would also be a registration fee for workshops, but it will generally be less than the \$30 fee, perhaps in the range of \$10 to \$20.

## **Other Fees and Charges [included in (a)]**

EE offerings that have unusual and readily identified expenses for such things as materials, equipment use, special facilities might have special charges, over and above participant fees and the registration fee. Or, the participant fee might just be set higher, depending on circumstances.

In some cases, especially for professional development programs leading to a certificate, there might be one-time application and certification fees to cover the associated staff costs.

## **COSTS**

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### **Instructor Pay (c)**

While there are a number of possible ways to approach instructor pay levels, we have allowed for salaries that are equivalent to summer school. For present purposes we have selected faculty reimbursement levels for step 4 of the five summer salary steps. This allowance is relatively generous given that adjunct salaries in Evening/Weekend Studies average \$3144 for four credit courses. We have not allowed for added reimbursement for over 20 students, as is the case in summer school.

Based on information from other institutions, it appears that instructor pay for one day workshops varies between \$800 and \$1200, though often pay goes much higher if the instructor might draw a large enrollment or if her/his expertise justifies higher participant fees. We have used \$1000 per day for this analysis.

### **Instructor Benefits (d)**

Benefit costs for EE instructors might vary greatly from one person to the next depending on whether they are already employed by the college, full or part time, and whether or not they are considered contractors. We have employed the same benefit rate – 16.6% - that prevailed in summer school 2003, though this is probably somewhat high for this analysis.

### **Other Costs [will be a pass-thru in coordination with (a) in revenues]**

Some EE offerings, as noted above, might have extra costs associated with them – as for specialized equipment, facilities or for supplies. These charges will be either added onto the participant fees or the fees will be adjusted to offset them, so we have not made allowance for these other costs.

We should note that there will be some added costs for such things as photocopying, instructor supplies, etc. – the kinds of things that are usually covered by program budgets in the regular curriculum. We expect, as with summer school, that these costs will be negligible.

## **Indirect Costs (e)**

While it has been clear that there is an expectation that EE, as a revenue-generating program, should cover all of its costs including indirect costs, it has not been clear what these costs are. Most everyone we have talked to seems to agree that we should plan to offset added costs to Registration and Records and Student Accounts. But should we also cover some fraction of heating and lighting costs? How about janitorial costs? Do janitorial costs vary with use of space or just by the amount of space? And should we plan to contribute to the eventual replacement of the buildings themselves, even though capital costs are not funded directly by the college? Even if we could find answers to these questions, we have too little experience with extended education to know what the associated indirect impacts might be. For example, if it turns out that most EE programs are offered off campus, the impacts are limited.

After some discussion with folks in the business office, we decided, with their blessing, to use the college's federally audited indirect cost rate as a starting point for our analysis. That rate is established for purposes similar to ours – to allow for indirect costs associated with grants and contracts – and it has standing independent of extended education. At some later date we may want to do a careful study to establish the “real” overheads associated with the program.

The audited indirect cost rate is 55% of direct salaries for on-campus and 27% for off-campus. We have altered these to allow for direct charging and pass-through of a registration fee that is intended to cover added work for Registration and Records and Student Accounts. We estimate that, after adjusting for the registration fee, indirect cost rates drop to 40% and 20% of direct salaries. [Derivation of these percentages is based on the examples developed in the next section. A quick look at those examples will show that the sum of the registration fee and the other indirect costs, at 40% of salaries, yields about the same revenue as 55% of salaries.]

## **Extended Education Operating Costs (f)**

The final cost category covers the costs of administering the program. These should, in the long run, be covered out of indirect cost allowances. But in the early years of the program, while it is building, it is doubtful that indirect costs charges will generate sufficient revenues to cover all administrative costs. We have shown these separately.

We have, following the advice of the Extended Education DTF, allowed for a full time staff position and half of a dean's salary in the early years of the program. These salaries, plus benefits, amount to \$100,000 to \$120,000 per year. Allowing for other expenses, notably advertising and a half to full time clerical position in later years, means that the total administrative expenses might start at \$175,000 per year and go to \$225,000 over a three to five year period.

## Extended Education Offerings: Two Examples

The following two tables bring together the information presented above in constructing two examples of finances associated with potential EE offerings. The first example relates to a four-credit course (or to a non-credit course that would be equivalent in time and energy to four-credit course). The table shows revenues and costs for the course at three different enrollment levels.

<b>Example 1: Four Credit Course</b>				
		<u>10</u>	<u>20</u>	<u>30</u>
<u>Enrollment</u>				
<u>Revenues/Costs</u>				
<b>(a)</b>	Participant Fees	\$ 6,000	\$ 12,000	\$ 18,000
<b>(b)</b>	Registration Fees	<u>\$ 300</u>	<u>\$ 600</u>	<u>\$ 900</u>
Total Revenues		\$ 6,300	\$ 12,600	\$ 18,900
<b>(c)</b>	Instructor Salaries	\$ 4,000	\$ 4,000	\$ 4,000
<b>(d)</b>	Instructor Benefits	\$ 664	\$ 664	\$ 664
<b>(b)</b>	Registration Fee Pass-Thru	\$ 300	\$ 600	\$ 900
<b>(e)</b>	Additional Indirect Costs	<u>\$ 1,600</u>	<u>\$ 1,600</u>	<u>\$ 1,600</u>
Total Costs		\$ 6,564	\$ 6,864	\$ 7,164
Net Revenues		\$ (264)	\$ 5,736	\$ 11,736

The second example relates to a one-day workshop. Again, revenues and costs are shown at three enrollment levels.

<b>Example 2: One Day Workshop</b>				
		<u>10</u>	<u>20</u>	<u>30</u>
<u>Enrollment</u>				
<u>Revenues/Costs</u>				
<b>(a)</b>	Participant Fees	\$ 1,250	\$ 2,500	\$ 3,750
<b>(b)</b>	Registration Fees	<u>\$ 100</u>	<u>\$ 200</u>	<u>\$ 300</u>
Total Revenues		\$ 1,350	\$ 2,700	\$ 4,050
<b>(c)</b>	Instructor Salaries	\$ 1,000	\$ 1,000	\$ 1,000
<b>(d)</b>	Instructor Benefits	\$ 166	\$ 166	\$ 166
<b>(b)</b>	Registration Fee Pass-Thru	\$ 100	\$ 200	\$ 300
<b>(e)</b>	Additional Indirect Costs	<u>\$ 400</u>	<u>\$ 400</u>	<u>\$ 400</u>
Total Costs		\$ 1,666	\$ 1,766	\$ 1,866
Net Revenues		\$ (316)	\$ 934	\$ 2,184

### Critical Observations:

The examples make it clear that enrollment is critical to making the offerings profitable. Both courses and workshops appear to break even at enrollments of 10 to 12. This is consistent with our experience in summer school. As with summer school, we would have to manage the offerings carefully – be prepared to cancel them if enrollments are low – in order to avoid losses.

The examples also suggest that it is possible to cover all costs of extended education offerings and to provide a return to the college. It is important to keep in mind that the assumptions employed in this analysis are relatively conservative – instructor salaries and benefits are probably high and participant fees could be adjusted upward, if necessary. The actual revenue potential may be somewhat greater than shown here. The greatest down side risk relates to enrollment, but that is manageable, at least to a point, by canceling offerings that don't draw enough participants.

### **Extended Education Program Revenues and Costs**

Beyond illustrating the finances of some example offerings, it is reasonable to wonder what the overall revenue and cost situation might be if we were to have a full-blown extended education program operating on campus. This is a difficult question to answer, since the exact mix of activities and offerings is impossible to predict. The best we can do is to construct a model of EE finances related to a reasonable set of offerings. We have done that in the tables below.

We have used the example, once again, of a four-credit course – or a non-credit course that is equivalent in effort to a four-credit course – as the basis for our analysis. Suppose we were to direct our efforts to constructing a program made up of these courses. What would the finances look like? We have selected three scales for the program – 50 courses, 100 courses and 150 courses. The final figure – 150 courses – is roughly equivalent to our current summer school.

One way to think of these three levels of the program is that they might represent targets or goals for the program over, perhaps, a five-year time horizon. Building an EE program that is the size of summer school over five years seems like a reasonable goal. A level of 50 courses might be a target for years one or two, 100 courses for year three.

In constructing the tables below, we have used the same assumptions about fees and costs that we employed in analyzing the two example offerings in the section above. Revenues and costs are totals for all of the course offerings and are shown at three levels of *average* enrollment per course, 10, 15 and 20.

<b>Program Assumptions:</b>				
	Number of courses	50	100	150
	Credits per Course	4	4	4
<b>(a)</b>	Course fee per credit	150	150	150
<b>(b)</b>	Registration Fee	30	30	30
	*Registration Fee Distribution	Shared 67% to R&R, 33% to St. Accounts		
<b>(c)</b>	Average Instructor Salary	4000	4000	4000
<b>(d)</b>	Instructor Benefits (if Inst. S&W)	16.6%	16.6%	16.6%
<b>(e)</b>	Overhead Rate (of Inst. S&W)	40%	40%	40%
	*Indirect Cost Distribution	Shared 50% Academics, 25% St. Affairs, 25% F&A		
<b>(f)</b>	Extended Education Cost	175,000	200,000	225,000

<b>EE Program Revenues and Costs: 50 four-credit Courses</b>					
	<b>Average Enrollment:</b>		<b>10</b>	<b>15</b>	<b>20</b>
<b>Revenues</b>					
<b>(a)</b>	Participant Fees		\$ 300,000	\$ 450,000	\$ 600,000
<b>(b)</b>	Registration Fees		\$ 15,000	\$ 22,500	\$ 30,000
	Total Revenues		\$ 315,000	\$ 472,500	\$ 630,000
<b>Costs</b>					
<b>(c)</b>	Instructor Salaries		\$ 200,000	\$ 200,000	\$ 200,000
<b>(d)</b>	Instructor Benefits		\$ 33,200	\$ 33,200	\$ 33,200
<b>(b)</b>	Registration Fee - Pass-Thru		\$ 15,000	\$ 22,500	\$ 30,000
<b>(e)</b>	Additional Indirect Costs		\$ 80,000	\$ 80,000	\$ 80,000
	Total Costs		\$ 328,200	\$ 335,700	\$ 343,200
	Net Revenues		\$ (13,200)	\$ 136,800	\$ 286,800
	Return To Academics		\$ 26,800	\$ 176,800	\$ 326,800
<b>(f)</b>	Less: EE Office Costs		\$ 175,000	\$ 175,000	\$ 175,000
	<b>Net to Academics</b>		<b>\$ (148,200)</b>	<b>\$ 1,800</b>	<b>\$ 151,800</b>
	<b>Return to Student Affairs</b>		<b>\$ 30,000</b>	<b>\$ 35,000</b>	<b>\$ 40,000</b>
	<b>Return to Finance/Admin.</b>		<b>\$ 25,000</b>	<b>\$ 27,500</b>	<b>\$ 30,000</b>

The table above shows revenues and costs for a 50-course program. The revenues and costs are just as outlined in the sections above. We have assumed that the Registration Fee – Pass-Thru amounts will be distributed directly back to Registration and Records and Student Accounts - divided two-thirds, one-third, respectively per their agreement. We have also assumed, just for illustrative purposes, that the Additional Indirect Costs will be distributed back to the divisions – 50% to Academics, 25% to Student Affairs and 25% to Finance and Administration. Thus Student Affairs and Finance and Administration, in this example, would each get a quarter of the Additional Indirect Costs plus their respective shares of the Registration fees.

Academics, per this example, gets half of the Additional Indirect Costs amount and any surplus or deficit after covering EE Office Expenses. Again, this is subject to negotiation, but seems an appropriate starting point for this analysis. In the future, the division of the spoils of EE would have to be worked out among the Vice Presidents.

The net effect of these assumptions is that Student Affairs and Finance and Administration would always get revenues from extended education, whether there are profits or losses to the overall program. Academics, by absorbing the costs of administering the program, assumes all of the financial risks. The division might take losses, especially in starting up the program, but it also stands to make significant gains if things go well.

The 50-course program might just break even if average enrollments for the courses are about 15. Positive returns are possible with average enrollments above that level, and losses are likely below 15. Again, careful management of minimum enrollment levels might control losses.

<b>EE Program Revenues and Costs: 100 four-credit Courses</b>					
	<b><u>Average Enrollment:</u></b>		<b><u>10</u></b>	<b><u>15</u></b>	<b><u>20</u></b>
<b>Revenues</b>					
<b>(a)</b>	Participant Fees		\$ 600,000	\$ 900,000	\$ 1,200,000
<b>(b)</b>	Registration Fees		\$ 30,000	\$ 45,000	\$ 60,000
	Total Revenues		\$ 630,000	\$ 945,000	\$ 1,260,000
<b>Costs</b>					
<b>(c)</b>	Instructor Salaries		\$ 400,000	\$ 400,000	\$ 400,000
<b>(d)</b>	Instructor Benefits		\$ 66,400	\$ 66,400	\$ 66,400
<b>(b)</b>	Registration Fee - Pass-Thru		\$ 30,000	\$ 45,000	\$ 60,000
<b>(e)</b>	Additional Indirect Costs		\$ 160,000	\$ 160,000	\$ 160,000
	Total Costs		\$ 656,400	\$ 671,400	\$ 686,400
	Net Revenues		\$ (26,400)	\$ 273,600	\$ 573,600
	Return To Academics		\$ 53,600	\$ 353,600	\$ 653,600
<b>(f)</b>	Less: EE Office Costs		\$ 200,000	\$ 200,000	\$ 200,000
	<b>Net to Academics</b>		<b>\$ (146,400)</b>	<b>\$ 153,600</b>	<b>\$ 453,600</b>
	<b>Return to Student Affairs</b>		<b>\$ 60,000</b>	<b>\$ 70,000</b>	<b>\$ 80,000</b>
	<b>Return to Finance/Admin.</b>		<b>\$ 50,000</b>	<b>\$ 55,000</b>	<b>\$ 60,000</b>

A larger program, with 100 courses, would yield positive returns at average enrollments of 15 and significant returns at higher enrollments. There is still a risk of losses at low enrollment levels, but the break-even enrollment is less than at the 50-course level.

<b>EE Program Revenues and Costs: 150 four-credit Courses</b>				
	<b><u>Average Enrollment:</u></b>	<b><u>10</u></b>	<b><u>15</u></b>	<b><u>20</u></b>
<b>Revenues</b>				
<b>(a)</b>	Participant Fees	\$ 900,000	\$ 1,350,000	\$ 1,800,000
<b>(b)</b>	Registration Fees	\$ 45,000	\$ 67,500	\$ 90,000
	Total Revenues	\$ 945,000	\$ 1,417,500	\$ 1,890,000
<b>Costs</b>				
<b>(c)</b>	Instructor Salaries	\$ 600,000	\$ 600,000	\$ 600,000
<b>(d)</b>	Instructor Benefits	\$ 99,600	\$ 99,600	\$ 99,600
<b>(b)</b>	Registration Fee - Pass-Thru	\$ 45,000	\$ 67,500	\$ 90,000
<b>(e)</b>	Additional Indirect Costs	\$ 240,000	\$ 240,000	\$ 240,000
	Total Costs	\$ 984,600	\$ 1,007,100	\$ 1,029,600
	Net Revenues	\$ (39,600)	\$ 410,400	\$ 860,400
	Return To Academics	\$ 80,400	\$ 530,400	\$ 980,400
<b>(f)</b>	Less: EE Office Costs	\$ 225,000	\$ 225,000	\$ 225,000
	<b>Net to Academics</b>	<b>\$ (144,600)</b>	<b>\$ 305,400</b>	<b>\$ 755,400</b>
	<b>Return to Student Affairs</b>	<b>\$ 90,000</b>	<b>\$ 105,000</b>	<b>\$ 120,000</b>
	<b>Return to Finance/Admin.</b>	<b>\$ 75,000</b>	<b>\$ 82,500</b>	<b>\$ 90,000</b>

With a more fully developed program of 150 courses, roughly the present size of summer school, potential revenues are higher yet. Risk still exists, but the possible rewards of this more fully developed EE program are significant.

### **Conclusions:**

From the above analysis it appears that:

- Extended education can cover all of its associated costs and provide a return to the college.
- This is possible while still paying reasonable salaries and benefits to instructors – that is, comparable to our faculty salary scale.
- Charges to participants will have to be higher than for general in-state, undergraduate tuition, but limiting participants' access to campus services will keep these charges within reasonable bounds.
- Making the program break even and, hopefully, generate a return to the college will require careful management of enrollment levels. We will have to calculate break-even enrollments for each EE offering and cancel programs that fail to meet these minimums.

The analysis poses the following questions:

- Is the audited indirect cost rate that is applied to some grants an acceptable way to reflect overheads in EE operations, at least initially?
- Is the split of the Registration Fee – 2/3 to Registration and Records, 1/3 to Student Accounts – appropriate?
- What is the appropriate division of other indirect costs among the divisions? We have assumed 50% to Academics, 25% to Student Affairs and 25% to Finance and Administration.
- Is it acceptable that Academics should assume all risk of losses and all gains above costs or should the risks and potential for gains be shared more widely within the institution?
- Is it appropriate to exclude EE participants from campus services? If so, what steps do we need to take to make these exclusions effective?