

OUTREACH FEE & REVENUE SHARING COMMITTEE



PROPOSAL TO THE PROVOST

February 28, 2006

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Section 1: EXECUTIVE SUMMARY

The Outreach Fee and Revenue Sharing Committee was formed to standardize existing Continuing Education fee and revenue sharing agreements. It is strongly recommended that the university adopt the proposed model for fall 2006 with implementation of standardized fees in summer 2006. The proposed adjusted gross revenue sharing model pairs percentage of shared revenue with services provided by Outreach.

This model provides all colleges and schools (C&S) a percentage of their total adjusted gross revenue based on the level of Outreach service provided and the proportion of expenses that the departments assume. The three levels with corresponding gross revenue sharing are:

- Level 1: Outreach pays faculty & marketing; C&S receive 10% of gross
- Level 2: program pays faculty, Outreach pays marketing; C&S receive 40% of gross
- Level 3: program pays faculty & marketing; C&S receive 75% of gross

The committee also considered language and financial incentives to stimulate program development and growth; these are integrated into this proposal. Additionally, the committee believes that additional faculty compensation should be considered to foster programs offered through Outreach.

Section 2: BACKGROUND

UMass Amherst Continuing Education currently sets credit and non-credit fees on an individual program basis as determined by individual faculty members or academic units (college, school, or department). Continuing Education revenue currently is shared based on individual program agreements determined by individual faculty members or academic units and previous Continuing Education Directors (Appendix A). Customized fee and revenue sharing practices are unusual in research universities. Such unique arrangements complicate access to UMass Amherst by external constituencies and create complicated billing, registration, and financial aid processes for university staff to administer. They also have encouraged an environment of distrust between academic units and their service provider, Continuing Education.

The Outreach Fee and Revenue Sharing Committee was appointed on September 1, 2005. The Provost's charge to the committee was the following:

"I am charging the Committee to review current CE fee and revenue sharing practices, benchmark with other peer institutions, develop proposed systematic fee structures for undergraduate, graduate, and special credit certificate and degree programs, and develop a proposed systematic revenue sharing policy with academic colleges and schools. The Committee will present a proposal for consideration by the Provost by February 28, 2006."

The appointed members of the Provost's Fee and Revenue Sharing Study committee are:

- Linda L. Slakey, Dean, Commonwealth College (Chair)
- Eileen T. Breslin, Dean, School of Nursing and of Public Health & Health Sciences

Michael F. Malone, Dean, College of Engineering
John R. Mullin, Dean, Graduate School
Thomas O'Brien, Dean, Isenberg School of Management
Sharon L. Fross, Vice Provost, Outreach
Susan Pearson, Associate Provost, Faculty Relations and Budget
David H. Glassberg, Professor, Department of History
John A. Hird, Professor and Director, Center for Public Policy and Administration
Robert N. Moll, Associate Professor, Department of Computer Science
John G. Stoffolano, Professor, Department of Plant, Soil, and Insect Sciences
Jerri Willett, Professor, Department of Teacher Education and Curriculum Studies
William S. McClure, Director, Continuing Education
Theresa A. O'Neil, Director, Outreach Finance and Budget

In addition, other faculty and staff assisted in the work of this committee; they are:

John J. Cunningham, Deputy Provost
Theodore E. Djafaris, Associate Dean, College of Engineering
Steven D. Goodwin, Associate Dean, College of Natural Resources and Environment
Linda L. Griffin, Associate Dean, School of Education
Frank R. Hugus, Associate Provost and Director, International Programs
Kenneth W. Burnham, Director, Financial Aid Services and Career Services
Michael E. Grabscheid, Director, Outreach Marketing & Communications
Lynda D. Kamik, Associate Budget Director, University Administration and Finance
Bernd F. Schliemann, Director, Outreach Planning and Administration
Cynthia A. Suopis, Interim Director, University Without Walls

The following goals for a new fee and revenue sharing policy were identified by committee members during the initial October 18, 2005 meeting:

- a. Outreach must be adequately funded and staffed to add value.
- b. Any new fee structure must align with sensible business plans.
- c. There must be incentives for faculty and departments to develop new programs.
- d. There must be an incentive for Outreach to minimize costs.
- e. Financial reporting must be timely and simple.
- f. Colleges and schools need a predictable revenue stream from Outreach.
- g. There may be a need for a multi-tiered model that provides a variety of services.
- h. Any new model should provide transparency for students.

Section 3: MODEL DEVELOPMENT

The committee initiated its work by reviewing existing revenue sharing models, continuing education fee structures, and faculty compensation at other institutions. There are a wide variety of models used across the country. The benchmarked schools and information are included in Appendix B and the models considered by the committee are consistent with those found at other comparable universities.

Definitions

Adjusted Gross Revenue: the revenue received due to enrollment (fees per course multiplied by the number of students per course) less discounts, waivers, or adjustments

Program: a unique collection of offerings leading to a certificate or degree; a typical college or school has a portfolio of programs

Evaluation Criteria

After several hours of discussion, the committee developed a list of criteria that would be used to evaluate different models as well as structure the proposed model:

- a. Simple
- b. Facilitates early distribution of funds to programs
- c. Encourages Outreach to minimize cost
- d. Provides incentives to programs for growth
- e. Provides capacity for Outreach to facilitate program growth and development
- f. Offers different levels of service to programs

Model Construction

In order to validate any model, the committee needed to calculate the total expense required for Outreach marketing, administration, and Continuing Education functions. The developed models incorporated projections of all current university assessments. Financial results from FY2005 were applied to determine applicable program delivery costs.

Model One (CURRENT)

This model outlines the current revenue distribution arrangement for all programs.

adjusted gross revenue	= course fees x students – discounts/waivers/adjustments
- 1%	credit card usage rate
- \$2.55 x # students	help desk charge for UMassOnline courses
- 10% x gross	UMassOnline assessment rate (8% for PMBA)
- 0 – 30%	Outreach rate
- expenses*	program expenses paid by Outreach (faculty, etc.)
- <u>9.12% x expenses</u>	campus administrative overhead rate

Model Two (FLAT FEE PER STUDENT)

This model provides all programs a portion of program total gross revenue based on an established cost per student. All program expenses (including the UMassOnline charges, credit card charges, and administrative overhead rate) are paid by Outreach.

$$\begin{aligned} \text{program gross} &= \text{course fees x students} - \text{discounts/waivers/adjustments} \\ - \$663 \times \# \text{ students} &\text{ program delivery charge (assumes no 8.5\% rate)} \end{aligned}$$

Model Three (STANDARD PROGRAM FEE)

This model provides all programs a percentage of program total gross revenue. All program expenses (including the UMassOnline charges, credit card charges, and administrative overhead rate) are paid by Outreach.

$$\begin{aligned} \text{program gross} &= \text{course fees x students} - \text{discounts/waivers/adjustments} \\ - 73.5\% \times \text{gross} &\text{ program delivery rate (assumes no 8.5\% rate)} \end{aligned}$$

The committee concluded that none of the aforementioned models met all of the evaluation criteria listed above. The model detailed in the next section does consider and meet these criteria.

Section 4: PROPOSED MODEL

Model Four (ADJUSTED GROSS REVENUE)

This model provides all colleges and schools (C&S) a percentage of program total adjusted gross revenue based on the level of Outreach service provided and the proportion of expenses that a department assumes. The three levels with corresponding gross revenue sharing are:

- Level 1: Outreach pays faculty & marketing; C&S receive 10% of gross
- Level 2: program pays faculty, Outreach pays marketing; C&S receive 40% of gross
- Level 3: program pays faculty & marketing; C&S receive 75% of gross

	Level 1	Level 2	Level 3
faculty	Outreach	C&S	C&S
marketing	Outreach	Outreach	C&S
C&S % of gross	10	40	75

Adjusted gross revenue sharing is defined as the sharing of revenue with a college or school unit based on an approved percentage of fee revenue for a program or portfolio of courses. Other support fees and costs are generally incorporated into this model for financial simplicity and the benefit of all programs; exceptions are outlined below.

Faculty costs are the instructional costs required to deliver a course.

Program marketing costs are those required to conduct market research, identify a target audience for programs, develop a marketing strategy, and execute a marketing campaign targeted to a specific program. This includes program development, advertising, and print costs. *Institutional marketing* represents the costs associated with marketing Outreach programs through the UMassOnline, Outreach, and Continuing Education websites and printed materials as well as Outreach advertising. In this level of marketing, no specific emphasis is placed on any one program, but information is available for all programs. Thus, program marketing only applies to levels 1 and 2 whereas institutional marketing applies to all levels. This will ensure consistent support to students and faculty.

Model Characteristics

Overview for All Programs. The adjusted gross revenue model is based on encouraging program development and growth, but it also implies that either the academic unit or Outreach assumes risk for program success – depending on the level. In level 1, Outreach assumes the initial risk for program success; in level 3, the college or school does; and in level 2, the risk is shared. This relatively simple model accounts for different program structures and provides incentives for program growth by offering a tiered approach. It also facilitates the development of cross-curricular, blended and hybrid programs by providing limited levels of risk and associated fees for colleges and schools. Furthermore, Outreach anticipates implementation of future incentives based on program enrollment and/or adjusted gross revenue; these incentives for increased program percentages will be phased in over the next few years.

The model applies to self-contained certificate and degree programs as well as single courses. All levels presume use of basic Outreach services including student registration and records, institutional marketing, finance and business, student and faculty help desk support (*includes outsourced help desk*), instructional design support (*includes outsourced training from OIT*), and information systems support. Outreach will also offer program coordinator assistance (program planning, facilitating, coordinating, fiscal/budget development, course materials development); sites for classes/programs; and assistance for online course development.

After a thorough financial analysis, all current programs will be assigned an initial level by the Vice Provost for Outreach after considering input from colleges and schools. All revenue sharing agreements will be formalized through a MOU, and further level changes will be made in consultation with respective program Deans or their designated representatives. It is presumed that most programs offered by a college or school would request to stay at the same level as this makes the financial reporting simpler and consistent for the finance staff within each college, school, or academic department. However, different programs within the same college or school may be assigned different levels (either level 1 or 2).

Financial Guidelines for All Programs. Revenue will be distributed to respective colleges and schools (not academic departments); colleges and schools will determine how revenue is distributed internally. Revenue distribution from Outreach will occur within ninety days after the first day of class for the fall, winter, spring, and second summer sessions (no revenue will be distributed after the first summer session as it will be consolidated with the second summer session distribution). Because this model is much simpler for accounting

purposes, it will be easier to provide timely financial reporting and disbursements. Situations in which a program is losing money will be evaluated and negotiated between Outreach and respective college and school deans. Outreach will mitigate any future losses by conducting internal quarterly scorecard reviews to assess the financial viability of each program. If a program generates a net loss for two consecutive years, a joint decision to terminate revenue sharing or simply terminate the program may be made by the Dean and Vice Provost for Outreach. Additional targeted marketing and other resources to redirect a program will be considered before a program is terminated. If individual courses must be canceled due to low enrollments, Outreach will have authority over level 1 and individual colleges and schools will have final authority over levels 2 and 3.

Level 1 Programs. Experience of comparable institutions suggests that most programs and all individual credit courses will be classified as level 1. In this level, all UMassOnline charges, credit card charges, and the campus AO rate are paid by Outreach. In addition to the services outlined above, Outreach will pay all program expenses as well as contract for and process payment for instructors. New programs will be classified as level 1 for at least 1 year. This will allow Outreach to optimize cost recovery in a period when a program typically does not recover full cost. While there may be exceptions, experience has shown that a program's first year generally has low enrollments and high costs; this practice will avoid excessive losses during the inaugural year.

In order to provide financial incentives for the development of new programs, Outreach will provide some market research and program development costs through the recently introduced Outreach Program Innovation Fund. Market research costs for those new programs that do not receive funding through the Program Innovation Fund will be recouped by Outreach in the first years of the program; programs may not proceed to the next level until initial marketing costs are recouped. Basic market research will include competitive benchmarking, a brief description of market opportunity, and an indication of the respective challenges and expenses in promoting to the target market.

Level 2 Programs. All payroll functions and related expenses are assumed by the program (e.g. payment of expenses; and contract/payment for instructors). All UMassOnline charges, credit card charges, and the campus AO rate are paid by Outreach for level 2 programs.

Program Marketing. Outreach provides level 1 and 2 programs with marketing support in four key areas:

- a. Market research: (1) assess competitive landscape and market opportunity, based upon benchmarking and primary research, which may include survey and focus groups, and (2) project market potential to support go/no go decision.
- b. Market target: identify demographic segments likely to yield greatest demand for program.
- c. Market strategy: (1) create a marketing plan which defines message, timing, channels, and methods of promotion, and (2) support development of appropriate recruitment processes and systems within academic departments.

d. Market campaign: (1) develop copy and graphics for promotional campaign; (2) print promotional material; (3) execute targeted advertising public relations; and (4) assess campaign success, refining the plan as required.

This support also ensures that the university presents a consistent brand identity message for any level 1 or 2 programs offered through Outreach.

Level 3 Programs. Significant marketing capabilities are inherent in level 3 programs. All UMassOnline and credit card charges are paid by Outreach; however, the campus AO rate will be paid by the academic department since it is based on total program expenses. Under Outreach's current structure, assignment of level 3 to all programs would be economically infeasible. Therefore, if all programs eventually migrated to level 3, Outreach would have to adapt to a different business model. It is not anticipated that most or all programs will desire a level 3 status in the near future.

Partnerships with Other Institutions. It is presumed that this model can be extrapolated and does foster current and future program development with external partners – especially other higher education institutions. In general, revenue sharing will be consistent with the previously described levels; however, it is anticipated that unique situations will arise that will need to be addressed between Outreach and individual academic units.

Non-credit Programs. Historically, non-credit programs offered through Continuing Education and UMass Extension have established individual revenue sharing agreements depending on the intent and target audience of the program. Therefore, they are currently exempt from the proposed model. Non-credit programs are entrepreneurial and generally must be marketed to attract sufficient registrations. They tend not to have a high level of fee structure and expense flexibility. These programs often require accelerated course development and must be flexible enough to accommodate content changes. Nonetheless, non-credit programs may be considered under the adjusted gross revenue sharing model after the model is implemented and refined.

Non-Revenue Generating Programs. Programs established for the sole purpose of providing opportunities for primarily residential students and not for generating net revenue are also exempt from this model. Examples include programs offered by the International Programs Office where Outreach provides only a registration function for credit courses and exchanges during summer and winter sessions. In addition, grant funded programs and internships are also normally considered non-revenue generating programs for the purpose of this model. Cost recovery to Outreach is expected for each of these programs, however.

Model Validation

Examples of the different levels using actual programs' FY2005 financial data are outlined in Appendix C. Throughout the conceptual development of this proposed model, the committee used Outreach and individual program data from FY2005 (the most recent year already "closed out" financially). This financial analysis and modeling often suggested refinement to and exceptions for the model that were then further validated. Wherever practical, more conservative estimates were used (e.g., use of the FY2007 UMass Amherst Administrative Overhead rate and UMassOnline charges). It is presumed that annual growth will off-set future increases to both of these rates. The summarized and respective

program results of this model validation are included in Appendices D. Further financial modeling was conducted on standard Continuing Education fees and increased faculty compensation – both discussed below.

Standard Fees

In a related component of implementing this model, the UMass Amherst Office of Administration and Finance developed a standard Continuing Education fee schedule for summer sessions (Appendix E). This initiative was directed by the Chancellor, but was validated and incorporated into the adjusted gross revenue sharing model validation process. In the interest of providing consistent and simple information to students, it is recommended that these fees apply to all programming throughout all sessions and semesters. The new standard fee of \$290 per credit hour (\$320 for graduate courses) would be implemented beginning summer 2006. This standardized rate includes materials, summer activity, and central campus infrastructure charges. It is expected that this rate will continue to increase incrementally over the next few fiscal years in order to more closely align with resident student tuition and fees. A more significant increase was avoided at this time in order to prevent any significant loss to the current student base. In addition, professional programs (such as those offered by the College of Engineering, the School of Education, the School of Public Health and Health Sciences, the School of Nursing, the Isenberg School of Management, and University Without Walls) will retain autonomy over their fee rates. These are generally colleges and schools that offer programs which command a much higher fee structure based on current market demand. For financial modeling purposes, it was presumed that enrollment will stay constant with increases, albeit incremental, to Continuing Education fees. The results of the increased fee analysis are included in Appendix F.

Faculty Compensation

To foster future program growth and individual course offerings, increased compensation for tenure system faculty and special academic appointments (Continuing Education instructors, lecturers, clinical, research, and visiting faculty) should be considered. A portion of the increased revenue due to increased fees could be applied to this end. However, it is recognized that additional compensation must be consistent with collective bargaining agreements.

Section 5: IMPLEMENTATION

A phased approach to implementation is recommended. It will take several years to refine this model as projected program growth is based on innovation, priorities, and limited university resources – notably faculty time as well as internal and external funding.

Phase 1 - Near Term

This model should be implemented starting the fall 2006 semester and should include a review of all credit, non-credit, and certificate programs offered through Continuing

Education; written agreements must be developed for all of these programs. Business processes for Continuing Education and its academic partners must also be revised to facilitate simpler and more timely financial reporting.

Phase 2 – Short Term

Although the validation phase incorporated conservative financial growth and expense estimates, it is important to implement the model for at least one fiscal year (2007) before making any significant structural changes. Starting in FY2008, it is anticipated that the following improvements could be integrated into the model:

Enrollment Incentives. Colleges and schools would be compensated financially for larger course, certificate, and program enrollments. Outreach is beginning to track this data and will report it to academic units on a semester and annual basis. Additionally, incentives could also be built to reward percent increase in enrollment or revenue to better accommodate smaller programs.

Partnerships with other Universities. As the higher education landscape continues to change, colleges and universities will continue to seek financially viable partnerships. Faculty on this campus will teach courses for other institutions and vice-versa. This model must accommodate this vision and be flexible enough to change faculty compensation rates and other parameters to adjust to the marketplace.

Phase 3 - Long Term

As data is collected to determine workload within Outreach and costs for particular services (e.g. registration, marketing, instructional design), it is logical to assume that Outreach can further refine its level of services. Clearly, programs have different types of marketing and other needs. Further resolution to the adjusted gross revenue sharing model could offer a menu of choices to new and existing programs based on respective needs.

Revenue Growth Potential

Under the current system of external administrative charges, Outreach is operating in deficit beginning in FY2005 (Appendix G). To stimulate growth and to increase market share, Outreach has earmarked funding for additional market research and program development capacity. The Vice Provost for Outreach is confident that if this proposal is adopted and there is an investment of resources, gross revenue could reach \$25-30M over the next five years. The Vice Provost anticipates that it will take this length of time to see the positive financial results of Outreach's initial investments. A financial comparison of the existing and proposed models is presented in Appendix H.

There are several reasons why expenses and allotments out have outpaced revenue growth during the past few years. These include:

- a. Significant increases in the UMassOnline assessment
- b. Significant increases in the campus administrative overhead (AO) rate

- c. Introduction of the 8.5% assessment rate in FY2006
- d. As ISOM enrollment steadily grows, under the current revenue sharing practices (5% to Outreach), Outreach continues to lose revenue
- e. Continuing Education staffing levels were at their lowest level in September 2004. Program development, registration, on-line technical support and marketing were key areas with unfilled positions.

Section 6: REVIEW PROCESS

The model should be continually refined so that it best addresses the academic and financial needs of the university and its students. It is recommended that a standing committee be appointed to provide programmatic and financial review and recommendations to Outreach. This Outreach Advisory Committee would meet each semester and should be comprised of the following stakeholders:

- a. Vice Provost, Outreach
- b. at least three deans appointed by the Provost
- c. University Budget Director (or representative)
- d. Associate Provost for Faculty Relations and Budget
- e. Director, Continuing Education
- f. Director, Outreach Finance and Budget
- g. Member, Faculty Senate Outreach Council (or delegate)

This committee will review the percentages in each of the three levels at least on an annual basis. If the committee cannot come to a consensus on a revenue sharing, level assignment, or other issue, the Provost should make the final respective decision. As the adjusted gross revenue sharing model is implemented and refined, future agendas for this committee could expand to include the other major units within Outreach (Arts Extension, UMass Extension, University Without Walls, and WFCR).