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Basic Principles of Self-Support Programming

The College of Extended Learning (ExL) is a self-supported academic college of the University. Each of the programs it offers is expected to be self-supporting. Further, programs should also exceed self-supporting status and make a positive contribution to margin or net. The positive contributions to margin are what allows ExL to have funds to invest in new programs, to grow (adding space, classrooms, staff), to replace equipment and upgrade facilities, and the like. Programs making a positive contribution to margin allow ExL to reinvest in new programs and services that expand access to education for those we serve.

The attached chart provides a basic graphic view of what is meant by self-supporting programs and positive margin. These are standard definitions in the field of continuing higher education about what being self-supporting means. They are captured here to be sure we in ExL all share these common understandings and that we are using terms in the same way across the College.

The following numbered items refer to the numbered sections on the attached graphic:

Item 1 - Direct Program Expenses: Each program has direct program expenses. Direct program expenses include items such as instructional costs, materials costs, instructional space costs, marketing costs, any additional support help hired just for the program in question, equipment rental or purchase, rental of buses, and the like.

Direct expenses are usually the easiest to budget and they, therefore, provide a basis upon which a formula calculation of other expenses can be based for the purposes of budgeting and pricing a program before any final decisions are made about offering the program.

As a general budgeting and pricing guide, direct expenses should be between 20% and 33% of the total calculation of revenue needed to cover operating expenses and make a positive contribution to margin. Direct costs should not exceed 40% if a program is to be sustainable with a modest contribution to positive margin over time. But, direct costs may drop as low as 10% for programs making a high positive contribution to margin.

Item 2 - Operating Expenses: This is a general term for all of the staffing, facilities, and services that are required to operate ExL to plan, market, and manage programs. All operating expenses in ExL must be paid by ExL program revenue for ExL to be self-supporting.

Item 2A Operating Expenses at the Unit Level: These are the expenses of the immediate program unit or team. They include primarily staffing costs for the units' program directors, coordinators, student assistants, and other contracted help. Each program offered by a particular unit must cover its share of the units operating cost. The figure shown of the attached graph is a college average, but each program unit must

work with its actual operational costs based on last year's actual operating cost and revenue generation performance.

If a unit produces a high revenue with a low unit level operating expense, each program that unit offers will have less of a cost recovery burden to cover its share of unit operating costs. This will generally allow more programs in the unit to make a positive contribution to margin.

If, on the other hand, a unit has high operating expenses (usually lots of staff costs) and low revenue, the unit operating expense each program has to cover can be very high. This can make it very difficult for programs to make a positive contribution to margin. In such cases, the unit team must work quickly (within the span of a fiscal year) to solve the problem in one of two ways - increase revenue without increasing unit operating costs or significantly decrease unit operating costs while retaining revenue levels.

Item 2B College Operating Costs: These are the costs of operating ExL that must be covered by all the programs offered by ExL. Calculation of operating costs for the College is based primarily on the prior year's actual cost with some modification for budget changes of which we are fairly certain (i.e., staff salary increase and the like).

College level operating expenses include the cost of office lease, phones, maintenance, registration, financial management, academic support, information systems and services, HR functions at the college level, the marketing staff, the dean's office (and associate dean's office), and the like. It is important that each service unit in the College carefully control costs to keep College operating costs as low as possible. Keeping operating costs low means there are less operating expenses for each program to cover and, in turn, more opportunities to produce the positive net revenue that is important for the College to grow.

As a guide to budgeting and pricing, the College level operating expenses are allocated evenly across programs. Each program must cover its share of College operating expenses since that is part of the cost of offering and maintaining the programs.

Item 2C The Operating Expense of University and Chancellor's Office Overhead: Part of the ExL cost are payments we must make to the larger University for services and the charges each year the Chancellor's Office makes to each campus for a share of the revenue from extended learning units to cover state-level CSU expenses. The cost of the expenses ExL has from the University and the Chancellor's Office are part of the overall cost of operations and must be covered by the revenue from programs offered.

Item 3 – A Self-Supporting Program: This line indicates that point at which a program is self-supporting. If a program's revenue and expense balance falls below this line, it is not a self-supporting program and part of the cost of offering that program is being covered by the positive revenue of other programs. If the positive revenue from some programs has to be put into covering the share of operating expenses not covered by programs that fall below the self-support line and our positive margin decreases. This, in turn, adversely impacts ExL's ability to grow new program and expand access. To keep this kind of adverse effect to a minimum, ExL cannot offer programs that fall below the

self-support line after a reasonable start-up period (one fiscal year unless the executive team recommends an exception that is approved formally by the dean).

Item 4 - Positive Margin or Positive Net Revenue: Positive margin or positive net revenue is the revenue ExL's programs generate above the level of self-support.

At the self-support level, if a program is paying for the directing and operating expenses it takes to offer that program, but it isn't producing positive net revenue - it isn't earning any money. Therefore, when we speak about some program earning less money than others, we are referring to all programs going over the self-support line and making some money – some positive contribution to margin. That positive contribution to margin may be modest in some cases (5%) and strong in others (60% or more). Individual program business plans should set positive net revenue targets that are ambitious but appropriate for the program in question and its revenue potential.

Overall, each program offered by ExL must be self-supporting; all should also make at least a modest contribution to positive margin. For most programs, the contribution to margin should be a minimum of 10% with a mature program producing 20% to 30%. Each year, ExL overall should have a minimum positive net of 10% to 15% overall operating costs if it is to grow - expand programs, expand staff, expand access, expand facilities. Achieving this revenue target as Summer Session converts to state funding will require solid business plans, strong cost controls/and thoughtful choices about the new programs we create and/or continue to offer.