DRAFT

UCDAVIS
BUDGET AND
INSTITUTIONAL ANALYSIS

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Incentive-Based Budget Model

Summer Sessions Program

This paper provides context for a discussion of the Summer Sessions Program (summer) in the campus incentive-based budget model. It includes an overview of current practices and authority, the current distribution of summer revenue, and a proposal for modifying how summer revenue is distributed. The paper also addresses the associated shifts of authority from the Summer Sessions Office to the units. The proposal is a starting place for discussions.

PRINCIPLES

Before delving into the specifics of summer it is important to reiterate the over-arching principles of the UC Davis budget process. These principles should help inform the decisions to be made on specific aspects of the budget model.

1. Establish a sustainable funding model with incentives that advance the Vision of Excellence and the 2020 Initiative.
2. Advance and encourage campus strengths and priorities such as interdisciplinary scholarship and internationalization, as well as boost economic development.
3. Be transparent, linking authority with accountability.
4. Be as simple as possible to understand, administer and implement; rely on common and easily available data sources.
5. Encourage creativity and responsible risk-taking while providing for reasonable reserves and oversight.
6. Balance local autonomy with a strong sense of unity in vision and values.
7. Provide mechanisms for investments in fresh ideas at all levels.
8. Provide for reasonable transitions and bridging strategies.

Additionally, specific to the Summer Sessions Program the model should:

9. Give authority to the deans similar to the authority in the regular academic year so that the full year is taken into account when planning course offerings and resources.
10. Encourage high demand courses to be offered that meet student needs and enable timely degree completion.
11. Ensure that funds are allocated to support workload.

12. Maintain funding for student services and other campus administrative costs that are currently supported.

TERMINOLOGY

The **budget process** is the annual process through which the campus reviews the alignment of its expenditures with its vision and priorities and determines additional investments to advance that vision and priorities. Annual budget meetings including the Provost, the dean and the chair of the Faculty Executive Committee occur each spring.

For 2012-13, the summer **course fee** for UC students is $271 per student credit hour (SCH). A four unit course costs $1,084. This fee is charged in lieu of tuition and the student services fee (SSF). The summer course fee is equivalent to the sum of tuition and the SSF assuming a full-time student taking 45 SCH during the academic year (2012-13 tuition of $11,220 + SSF of $972= $12,192. $12,192 / 45 SCH = $271/SCH). Campus-based fees charged during the summer ($295.16 per summer session for UC undergraduates for 2012-13) are excluded, because they are, in general, dedicated to specific purposes and are not available for the allocation process described in this document.

The term **financial aid** encompasses a variety of mechanisms to help students pay education expenses. It includes federal, state and private sector support in the form of grants, loans and work-study programs. The term **return-to-aid** (RTA) is the portion of tuition revenue that, per Regental policy, is dedicated to the University Student Aid Program (USAP).

The **Summer Sessions Program** includes summer session 1, summer session 2 and special summer session. It does not include self-supporting degree programs, UC Davis Summer Abroad or UC Education Abroad Program (UCEAP).

Unless otherwise stated, the term **unit** refers to a primary campus organizational unit led by a dean, vice provost or vice chancellor.

SCOPE

The paper addresses only the revenue generated by the course fees from the Summer Sessions Program. Programs and charges outside the purview of this document include:

- UC Davis Summer Abroad
- UC Education Abroad Program
- Professional school and health sciences summer instruction
- Campus-based fees and course materials fees paid by summer students

The proposal to include summer in the campus budget model does not imply that it would be considered a fourth quarter of the academic year. The campus evaluated and rejected that proposal in the mid-2000s. However, Budget and Institutional Analysis (BIA) is reviewing options and data requirements for calculating an additional version of the student-faculty ratio (SFR) that would include summer instruction. This should be feasible when summer sessions instructors are on the school, college or division payroll. BIA should be able to begin modeling for new reports after the payroll data becomes available.

BACKGROUND

All UC campuses with undergraduate programs offer summer instruction. These programs help meet several goals:

1. Provide courses (especially major requirements and prerequisites) to enable students to maintain or accelerate the time it takes to complete their degree.
2. Provide opportunities for freshmen, transfer and international students to take courses before the start of the academic year.
3. Allow opportunities for innovative instructional formats.
4. Use facilities, labs, lecture halls and other space year-round.
5. Generate additional funds.

Historically, summer has been treated like a self-supporting program. Fees charged to students are expected to cover the full cost of providing instruction, including some costs incurred by campus support units such as the library, information technology, and other student service units. In addition, in the early 2000s, when state support to the UC system was decreasing, the Regents approved use of summer revenue to help mitigate the reduction in state funds. At that time, UC Davis began using $2.7 million of revenue from summer to fund general campus purposes.

In 2010-11, support from the state declined again. The campus took a number of steps to mitigate the impact on the academic year program, including an annual contribution from summer of between $4.0 and $7.0 million. For example, from summer 2012 revenue, $4.1 million was contributed in addition to the $2.7 million mentioned above.

Summer faces some challenges that are different from the academic year. First, there are fewer financial aid options available to students during summer, specifically federal financial aid in the form of Pell Grants. The federal government does not provide Pell Grant funding for summer. The exception to this was in 2010 and 2011, when Pell Grant funding was available for summer courses. While an analysis has not been completed, the hypothesis is that the absence of Pell Grants causes fewer students to enroll in summer.

Second, the compensation policies for faculty members during summer are different than during the academic year. Faculty members on academic year appointments receive additional compensation for teaching in summer session. Prior to 2012, this additional compensation could be salary or research support in lieu of salary. Because of concern regarding tax law compliance, beginning in summer 2013, faculty members must be compensated with salary unless a written exception is approved to receive research funding in lieu of salary. This change may cause fewer faculty members to teach during summer.

INCENTIVES AND THE BUDGET MODEL

Incentive-based budgets are designed to allocate resources directly to the units or activities responsible for generating the revenue. The campus instituted an incentive-based budget model beginning in 2012-13, with the allocation of academic year undergraduate tuition and indirect cost recovery. A proposal for graduate tuition is currently under review.

While the distribution of summer revenue adheres to some of the principles of the new budget model, the existing framework is not consistent with the academic year. Therefore, the transition to the new model for the academic year creates an opportunity to revise the methodology for distributing summer revenue and address the issues of authority and responsibility. The primary incentives for such changes are clear:

a. Academic units are better positioned to understand the costs and benefits of summer courses and can make decisions in the context of the full year.
b. Integrating summer sessions revenue into the budget model will put all revenue from instruction in a similar construct.
c. Academic units can develop more comprehensive budget plans that include all revenues and costs.
d. Academic units will be encouraged to research and understand student demand and, as a result, offer courses that will meet it.

EXISTING POLICIES, PRACTICES AND COURSE OFFERINGS

The Summer Sessions Office in Undergraduate Education is an academic support unit that provides administrative services for summer in cooperation with the academic units. Each year, the Summer Sessions Office solicits course offering plans directly from academic departments. For the most part, the Summer Sessions Office accepts the course proposals from departments, with minimal involvement from the deans. The Summer Sessions Office appoints and pays the salaries of instructors and teaching assistants and funds other minor costs.

While the Summer Sessions Office has long been responsible for generating revenue in excess of costs, the office exerted little control over what courses were offered with the exception of the authority to cancel courses that did not meet minimum enrollment thresholds. Further, departments and deans did not receive information on whether or not courses were generating additional revenue, breaking even or operating at a loss. Nor were they informed as to whether the courses offered effectively addressed student demand. Beginning in 2009, the associate vice provost (AVP) for Undergraduate Education was appointed head of the Summer Sessions Office and developed a more strategic approach. The AVP worked with departments and deans to encourage offering courses to alleviate backlogs from the academic year, was more proactive in canceling low enrollment courses and began providing data to departments so that they could make more informed choices about which courses to offer.

Beginning in 2011, as a further step towards engaging departments and deans, the Summer Sessions Office began allocating incentive funding to the departments. For summer 2010, a pool of $0.6 million was distributed to departments, based on a combination of SCH and net revenue. In addition, the office provided deans and departments data on revenue and cost generated by every course offered by their units. As a result, many units chose to raise the enrollment caps on popular courses and cancel ones with marginal enrollments. The incentive pools for summer 2012 and summer 2013 were similar. Given information and a financial share in the outcome, the deans and departments are now more actively engaged in planning for summer.

Summer sessions offerings are a very small component of the total year (academic year plus summer sessions): of the 1.4 million total student credit hours (SCH) offered in the 2012-13 academic year plus summer sessions 2013, 5% were due to summer sessions offerings; the summer sessions percentage is slightly higher at 7% for the 1.1 million undergraduate SCH only. There is also an interesting contrast in course size: in summer sessions 2013, 74% of the courses enrolled 30 or fewer students and 96% enrolled 100 or fewer, while in the 2012-13 academic year, 59% of the courses enrolled 30 or fewer students and 84% enrolled 100 or fewer.

CURRENT FUNDING MODEL

Revenue from summer is approximately $22 million. For context, the revenue from undergraduate tuition is roughly $290 million (including return-to-aid) and indirect cost recovery from research sponsors generates about $120 million.

Of the $22 million in gross revenue for 2013-14, $6.5 million is dedicated to return-to-aid and $6.8 million supports general campus purposes ($2.7 million Regents 2003-04 decision and $4.1 campus 2010-11 budget reduction decision), leaving a balance of about $8.8 million available for distribution. See Appendix I for a graphical representation of the current flow of summer revenue.

About 90% of the net revenue ($8.8 million in 2013-14) is held centrally and allocated from the provost to Undergraduate Education. The funds are used to pay for instructional support ($5.8 million), the departmental incentive program ($0.6 million) and the academic support and administrative units involved with summer ($1.3 million) which includes the Summer Sessions Office. Additionally, Student Affairs receives approximately $0.5 million in Student Services Fee (SSF) to help support summer sessions.

About 10% of the net revenue ($1.1 million in 2013-14) is allocated to the academic units. These funds were distributed in 2010 for departmental and administrative support. The current use of these funds varies by unit.

PROPOSED FUNDING MODEL

As with the other components of the budget model, changing the way summer sessions revenue is allocated will not add resources to the system. Instead, the model will expand upon existing incentives for future years and serve as a mechanism to distribute the revenue in a more transparent manner.

The following sections summarize the significant changes between this proposal and the current methodology. See Appendix II for a graphical representation of the proposed allocation methodology.

Funding for Student Affairs:

Currently, Student Affairs receives an allocation from summer revenue in the amount of $0.8 million and a base allocation from central campus of an additional $0.5 million from Student Services Fee (SSF) (totaling $1.3 million). The proposed methodology assumes that the SSF allocation will be replaced with revenue from summer. Also, the funding that Student Affairs receives will be 8% of summer revenue after accounting for return-to-aid. This treatment is similar to the SSF for the regular academic year. Currently, the regular academic year SSF is 8% of the total of tuition and the SSF ($11,220 for tuition and $972 for SSF). This way, funding for Student Affairs will increase or decrease consistent with summer sessions revenue.

Contributions to Central Campus:

As previously explained, some of the revenue from summer is held centrally as an offset to state budget reductions from prior years. The proposed methodology assumes that $5.5 million will continue to be set aside for this purpose. As noted above, $0.5 million in SSF currently provided to Student Affairs will be discontinued, increasing the net set aside to $6.0 million. This is a reduction from the current $6.8 million.

Calculation and Distribution of Net Revenue:

Similar to the current model, before funds are distributed, net revenue must be calculated. The proposed methodology assumes that gross revenue ($22.1 million for 2013-14) will be reduced by return-to-aid ($6.5 million), funding for Student Affairs ($1.3 million) and funds held centrally to backfill state budget cuts ($5.5 million). For 2013-14, the net revenue is approximately $8.8 million.

The proposed methodology assumes that 20% of the net revenue will be allocated to the provost ($1.7 million) and 80% directly to the deans of the schools, colleges and divisions ($7.1 million). For at least the first year, the Provost will allocate ~$0.5 million in transition and strategic funding directly to colleges and divisions most impacted by the change (see Transition section below). Most of the remainder of the Provost's share will be allocated to the Vice Provost for Undergraduate Education to provide a pool of funds to be used for initiatives and investments related to summer and to support the summer sessions office. A small portion of the Provost's share will be allocated to continue funding the academic support and administrative units that are involved with summer sessions. Going forward, a growing amount of the Provost's share should become available for investments.

The 80% share of net revenue flowing directly to the academic units ($7.1 million for 2013-14) will be based entirely on the distribution of student credit hours. Units will use these funds to pay for instructional and administrative support and make other investments related to summer or the academic year.

Transition:

While the proposed methodology will allocate more of the revenue to the academic units, these units will be responsible for covering the majority of the costs associated with summer. The academic units will now be responsible for appointing and paying the salaries of the instructors and teaching assistants, determining which courses should be offered and determining whether a course should be canceled if it does not meet a minimum enrollment. The summer sessions office will make available historical data, templates, and an online contract employment application and will be available to assist, support and guide the dean's offices as they assume the new responsibilities. The summer sessions office is currently drafting a policies and procedures document to provide further administrative detail for the dean's offices and departments. It is anticipated that the summer sessions office responsibilities will shift to marketing, outreach and collaborative work fairly quickly after the transition period.

The proposed methodology assumes that 80% of the net revenue will be allocated to the academic units on the basis of student credit hours (SCH). Table 1 compares the projected summer sessions 2013 (2013-14 fiscal year) distribution of SCH (the metric to determine where funds would flow in the future) to the projected distribution of summer sessions funding (where funds flow now) and shows instances where the model will allocate funds differently.

As shown in Table 1, there are two instances where a unit's percent share of SCH is less than its percent share of summer revenue: the College of Engineering (COE) and the Division of Humanities, Arts and Cultural Studies (HArCS). This means that, under the proposed methodology, the allocations would be less than current expenses for these two units. In the short-term, the Provost would have funds to assist with transition while units adjust to the new funding formula. In the long term, the expectation is that units will review their course portfolios with the aim of offering quality courses that meet student demand and overall have appropriate cost to revenue ratios. If under the new budget model a unit continues to have higher costs than revenues, the course portfolio will be reviewed by Undergraduate Education and the Provost. If appropriate, a funding partnership will ensure that critical courses are offered.

Table 1: Distribution Comparison Percent of SCH and Summer Session Funding by Unit		
School, College, Division	**% of SCH 2013-14**	**% of 2013-14 Funding**
Agricultural and Environmental Sciences	10%	9%
Biological Sciences	12%	9%
Engineering	7%	10%
Humanities, Arts and Cultural Studies	19%	24%
Mathematical and Physical Sciences	21%	17%
Social Sciences	30%	28%
Professional schools	1%	1%
Total	**100%**	**100%**

COST CONSIDERATIONS

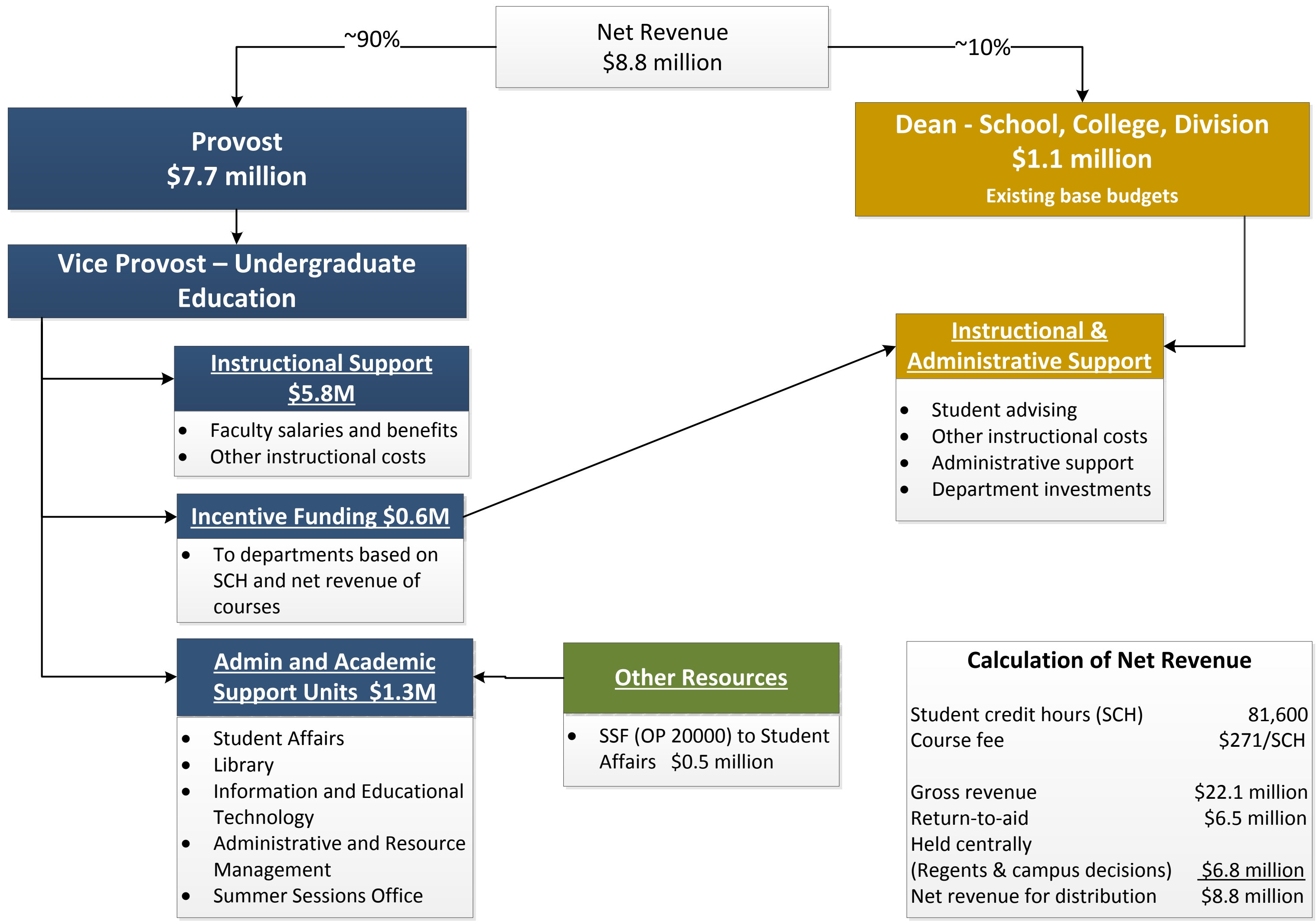
In its current form, the budget model for summer sessions emphasizes revenue allocation over cost allocation. Changing to a distribution of revenue based on where it is generated (i.e., where the students are taught), results in an allocation that deans will manage as an overall portfolio to maximize the alignment of income with expenses. Like the academic year, deans will be expected to manage summer in the context of their total instructional portfolio, where some courses will generate revenue that covers costs for more expensive offerings. But, as is the case for undergraduate tuition distribution, such a method does not address the issue that costs differ by discipline or instructional method with some disciplines more expensive than others. The undergraduate tuition model assumes that the more expensive units will be supported by the Provost Allocation. At the same time, the expectation is that during summer units will manage their portfolios to prioritize student demand for quality courses. Subsidies will only be offered if costs exceed revenues as a result of a unit's commitment to meeting student demand and offering required courses.

CONCLUSION

This proposed approach for summer in the budget model is intended to incentivize teaching courses that students need, integrate summer decisions into the budget process and give units more responsibility and authority for summer. Over time, deans should have increased flexibility to determine the most appropriate way to deliver instruction.

APPENDIX I

Current Flowchart for Summer Sessions Revenue
Using 2013-14 Revenue Estimates



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APPENDIX II

Proposed Flowchart for Summer Sessions Revenue
Using 2013-14 Revenue Estimates