

Exhibit B: Sample Financial Model for Self-Supporting Degree Programs (SSDPs)

DESCRIPTION OF SAMPLE FINANCIAL MODEL

Figure 1, below, provides a schematic representation of a sample financial model for SSDPs by the budget category and campus entity that would likely provide the services or resources needed for SSDPs to operate. The goal of this sample is to provide SSDPs with a model for arranging financial relationships that takes into account:

- The SSDP governance structure reflected in UCOP and campus policies on SSDPs.
- Show how to align the flow of resources with responsibilities for implementing and managing an SSDP.
- This model assumes that an SSDP would have a single, distinct, program budget managed by one campus entity (the “Academic Unit”) which would cover all program costs, but that services and resources could be provided by a variety of campus units.

It should be noted that the sample financial model for SSDPs also takes into consideration how SSDPs are likely to integrate into the new incentive-based budget model that is being implemented for the campus. In particular, the “campus assessment” shown in this model will be determined and administered through the campus budget model.

This sample is based on the following principles and goals outlined by the Task Force on SSDPs which informed the campus policies:

Principle 1: Program budgets must address all costs of operating a UC Davis SSDP.

Goal: Ensure that SSDPs are not supplemented by state or tuition funds.

Goal: Ensure that all necessary costs are identified to support long-term program viability (especially as new programs are considered).

Goal: Support the expectation that true costs are considered as part of the annual student fee setting process for these programs.

Principle 2: Keep budget and accounting mechanisms simple.

Goal: Keep administrative burden for program operations reasonable.

Goal: Reduce use of direct cost agreements between academic and support units.

Goal: Provide more consistency between SSDPs in the process and costs for receiving comparable central campus services.

Goal: Basic budget structure must be flexible enough to accommodate variations in programmatic design and delivery.

Principle 3: SSDP programs should receive, and pay for, all appropriate central campus services and infrastructure as other degree programs offered by UC Davis.

Goal: Reduce or eliminate inconsistencies between the services provided and paid for by SSDPs across the campus.

Goal: Recognize that SSDPs operate in an environment that is supported by a comprehensive campus infrastructure that was developed and paid for by other fund sources over time.

Principle 4: The inherent risks and opportunities of offering an SSDP should be recognized and addressed in the financial model for these programs.

Goal: Support the expectation that, over time, SSDPs will generate surplus revenue that is reinvested in other academic programs.

Goal: Establish a mechanism for campus investment in SSDPs from appropriate fund sources.

Goal: Ensure that SSDPs establish an appropriate reserve to address the market and programmatic risks of a self-supporting program.

Following is a description of the figure and definitions of the terms used in the sample model.

ROLES OF CAMPUS ENTITIES IN MODEL

In Figure 1, the large gray boxes represent the type of campus entity that would have some role in either operating the SSDP or providing services to support the operations of the SSDP. Three types of entities are identified.

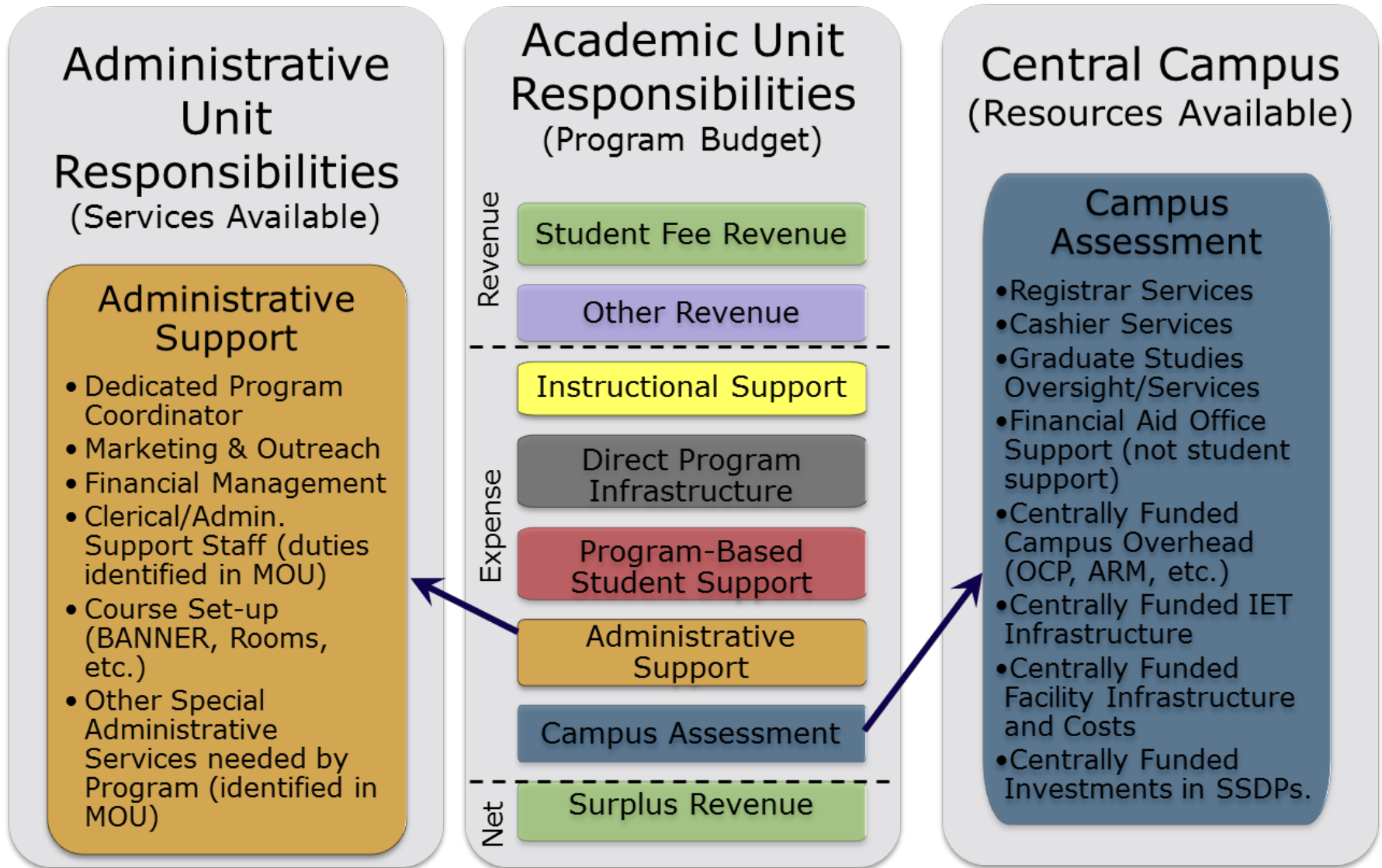
Academic Unit—The academic unit is the entity that has responsibility for all academic aspects of the program. This unit is accountable to an academic dean, who would have ultimate responsibility for the program. It is also the unit to which the benefit of any excess revenue the program would accrue. Since SSDPs are all graduate programs, the academic unit is likely to be a department, school, or graduate group. In the case of graduate groups, a lead dean would need to be identified. In the case of graduate groups that are cross department but within one school or college, the lead academic dean would be the school or college dean. In the case of graduate groups that involve faculty across multiple schools and colleges, the lead academic dean would need to be identified either from within those schools or colleges or would be the dean of Graduate Studies. (policy section I.B.)

In the sample financial model, the academic unit would be responsible for establishing and managing a distinct budget for all SSDP activities.

Administrative Unit—The administrative unit is the entity that has responsibility for providing dedicated administrative support services to the SSDP. Depending on the program, the administrative unit could be within the same unit as the academic unit. However, this model contemplates the ability of programs to use another campus entity to provide certain services to support the program via a single direct cost agreement. These type of arrangements may be beneficial in situations where an academic unit does not have capacity to provide the administrative services, when there may be economies of scale for several small SSDPs to leverage their resources to provide adequate staff support, and/or when an SSDP needs support from units with expertise in certain areas, such as marketing and outreach. In addition, clearly identifying the expected level of service provided to SSDPs by their administrative unit will help ensure that students in these programs are appropriately supported and that all costs are covered by the program.

Central Campus—The box labeled “Central Campus” represents all of the campus resources that an academic program needs to operate, or benefits from, by virtue of being a part of UC Davis. These resources are generally not provided by academic units and would not be unique or specifically dedicated to an SSDP, however, SSDPs could expect to receive the same level of access to these resources as all other academic programs. These resources can also take the form of underlying campuswide systems that are the result of long-term ongoing campus investments. The sample financial models suggests that, for purposes of gaining access to campuswide resources, SSDPs would be treated similar to all other academic units under the budget model and pay an “assessment.”

Figure 1: Sample SSDP Financial Model



SSDP BUDGET CATEGORIES

Exhibit A, the “SSDP Requirements and Responsibilities Matrix” identifies activities that SSDPs should perform and whether they would be the responsibility of the administrative unit or academic unit. The sample financial model identifies broad categories of program expenses under which the cost of all program activities should fall. The sample model also shows how funds could flow out of this model to other campus units that provide either administrative services or central campus resources.

In Figure 1, the colored boxes represent budget categories. The following is a description of each of these categories.

Student Fee Revenue and Surplus Revenue (green)—The primary revenue source for SSDPs is student fees. In this financial model, all student fee revenue would be directed to the academic unit for support of the program. This is consistent with the new campus budget model expectation that revenue will flow to the unit that generates it and that academic units are considered revenue generating. SSDPs would need to carefully estimate and track student enrollment to determine if they will have sufficient revenue to operate their program as envisioned. This is also critical to setting program fee levels. “Surplus revenue” represents the net revenue available after all program expenses are paid. These revenues would be used and distributed according to policy. (See GS2013-01, V.E.)

Other Revenue (purple)—Programs can receive other non-state and non-tuition or SSDP fee revenue if it meets a critical strategic need. These sources are typically specific grant funds (such as National Institutes of Health training grants), and could also be private donations or endowments. These sources should also be part of the program revenue base to cover specific expenditures. However, they generally cannot be part of “surplus revenue” that is ultimately directed outside of the individual SSDP. (See GS2013-01, V.B., and the [UCOP Policy on SSDPs](#), VI.E.)

Instructional Support (yellow)—Instructional support expenses are those that are directly related to providing the instruction to students in the program. Generally these expenses are associated with the faculty or other instructional staff who support the instructional aspects of the program. The expenses associated with these individuals should include payment of a share of their salary or overload, any associated benefits, and any other costs that can be directly attributed to the academic unit support of the faculty member. This category could also include other specific costs related to providing instruction in the SSDP, for example special course materials. It is generally expected that these costs are already a cost of the academic unit, although in the case of graduate groups a reimbursement to the faculty member’s “home” department may be necessary. (For specifics on faculty compensation, see GS2013-01, II.)

Direct Program Infrastructure (gray)—Direct administrative infrastructure refers to expenses that certain types of self-supporting programs may need to pay for, particularly if the program is offered off-campus, that might otherwise be considered part of the campus infrastructure. Some examples of this might be: lease costs for off-campus space, contractual information technology support for an off-campus location, use of campus auxiliary space that charges a fee (i.e. Mondavi Center or Conference Center) for program activities, additional information technology support related to online programs, and specific program-related equipment purchases.

Program-Based Student Support (red)—Program-based student support refers to financial aid type expenses that are directly funded from program revenues for students in the SSDP. Programs may choose to provide this type of support to their students. This is distinct from the administrative costs associated with SSDP students accessing services through the campus financial aid office.

Administrative Support (tan)—Administrative support expenses are those that provide dedicated support to the program and students in the program, not directly tied to instruction. Most of these expenses are likely to be staff support. For example, establishing a dedicated program coordinator and dedicated clerical support would fit in this category. Other types of contractual or program operating expenses should also be in this category, such as market research or advertising. In addition, there may be some level of “overhead” for administrative support provided by the academic unit, such as account

management, budget oversight, etc. As depicted in Figure 1, the services supported by administrative support expenses could be provided by either the academic unit or the administrative unit. If services are provided by an administrative unit that is different from the program's academic unit, a direct cost agreement and/or MOU would need to be in place specifying the services to be provided and the costs. If the administrative unit is a unit that receives central support for its operations from "campus assessment" revenue, then that unit should not charge the program an additional overhead charge for central support. It is also possible that this budget category could include a planned deficit, potentially to support program start-up, or, a planned reserve to save for specific program expenses, such as dedicated equipment.

Campus Assessment (blue)—A key concept in the incentive-based budget model is that revenue (tuition and fees) flows to "activity-based units" who generate the revenue (in this context, academic units with students) and "centrally budgeted units" are funded from an assessment on the expenditures of activity-based units. This proposal suggests that in general, SSDPs would be expected to pay the same campus assessment on expenditures that all other activity-based units will pay. By paying this assessment, the SSDP will receive equal access to campus resources that support academic programs. No separate expense (such as a Direct Cost Agreement) would be needed to access services provided by the centrally budgeted units. Additionally, payment of this assessment would eliminate the concern that SSDPs are in some way being supplemented by state or tuition resources by virtue of their use of existing campus infrastructure and administrative effort because they would be contributing to these costs at the same rate as all other academic programs. This concept is offered with the caveat that the campus assessment should not be applied to SSDP expenditures for direct program infrastructure and that additional exclusions from the assessment may be appropriate for SSDPs depending upon what is ultimately funded through the assessment.

It is acknowledged that the use of campus space by SSDPs is a program cost that is not currently well defined or consistently valued on our campus. It is anticipated that the shift to a new budget model may result in a more standard method of determining the value of space and that this cost should be applied to SSDPs based on usage in the same manner as it is applied to other academic programs on campus.

The campus assessment is also proposed to include funding for central campus to invest in the start-up and development of SSDPs at UC Davis. It is assumed that the campus budget model will include sufficient funds for campuswide initiatives through the Provost's Office. As reflected in principle four above, there is some inherent risk in offering SSDPs, however, there is a strong interest by campus leadership to encourage academic units be entrepreneurial in how they leverage their instructional resources and SSDPs are a key way to do that. If central funds were available to support activities such as market studies, limited-term program development support, and program start-up costs more units may be interested in pursuing SSDPs and those that are launched may be more successful if the initial market research and program design is supported.

KEY ISSUES FOR CONSIDERATION WHEN DEVELOPING AND IMPLEMENTING THE SSDP FINANCIAL MODEL

For a specific program to successfully implement this financial model, there are a number of critical details that should be considered. These issues are likely to differ by program, therefore this paper cannot address all of the potential implementation details and challenges. However, our research has identified several common issues that may need to be addressed by most programs:

- *Enrollment Projections and Modeling*—It is critical that programs develop detailed enrollment projections to support program revenue estimates. These projections probably need to be multi-year and by course, especially if program fees are based on unit or course increments. They should also reflect market research on program demand.
- *Courses that include both state-supported and self-supported students*—It is important to appropriately determine how the cost of instructing both types of students sitting in the same course is divided. Generally these costs should be prorated based on the student enrollment; however this requires that the per-course costs are known. (See GS2013-01, IV.D.)

- *Documentation of Program Roles and Responsibilities*—It is important for both governance and financial reasons that the roles and responsibilities of all campus units involved in SSDPs be documented. (See GS2013-01, III.A.4.b., III.A.4.d)
- *Achieving Financial Stability*—Under UCOP policy and Academic Senate expectations, these programs are expected to be fully self-supporting within 2-3 years. This makes it even more critical that the appropriate initial analysis and systems be in place to ensure success. (See [UCOP Policy on SSDPs](#), I.B. and the accompanying Implementation Guidelines, section on Cost Analysis and Tuition & Fee Approval Request)