



Revenue and Expenses for Courses: The Big Picture

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Here is some background information for the upcoming roundtables on course pricing. The roundtables will have two themes (1) our current registration fees do not cover the full cost of our courses, and (2) we need to increase our fees over the next two years to recover all of those costs. Here is the big picture that shows the gap between our course expenses and our registration fees. I'll save the details about how we are going to close that gap for the roundtables.

Projected Course Revenue and Expenses for 2009-2010

Course Revenue (+) \$1,913,000



Direct Expenses	(-) \$1,339,000
Indirect Expenses	(-) \$1,585,000
Membership Dues	(+) \$532,000
Projected Shortfall	(-) \$479,000

Course Revenue **(+) \$1,913,000**

This number is a projection of our course revenue for this fiscal year based on our experience last fiscal year. It is only 90% of last year's revenue because Brad Volk assumed that our revenue this year for courses might be down by 10%. In fact, so far this year our revenue for courses is down by about 25%. This means that the projected shortfall between revenue and expenses could be even greater.

Direct Course Expenses **(-) \$1,339,000**

This number reflects the direct expenses for each course that is built into our current course pricing worksheet. It includes things like course materials, travel, postage, food, paid visiting instructors, facilities, and parking. We do a good job of recovering these costs through our registration fees.

Indirect Course Expenses **(-) \$1,585,000**

Now things are going to get more complicated, so please bear with me.

What is included in this number? It represents a detailed analysis by Brad that allocates certain staff salaries as expenses to be covered by course registration fees. It only includes staff members who support courses. In other words, we need to use revenue from courses to pay staff members who are supporting those courses. It also includes the ongoing cost of things like NetSuite and CollegeNet that support the registration and scheduling processes for courses.

For some people, like program managers and folks in our registration office, this number includes nearly their full salary because they spend nearly all of their time on work related to courses. Other staff members spend only a portion of their time supporting courses, and so only a portion of their salary—in some cases a very small portion—is included as an indirect course expense. This



category includes people working in information technology, marketing, the business office, and human resources.

What is not included as an indirect course expense? (1) It does not include any of the time spent by employees supporting publications, advising, and general operations. (2) It does not include general overhead for the School that is not related to courses. Most of the salaries for people working in information technology, the library, the business office, facilities support, human resources, development, and marketing are assigned to general overhead. We cover most of their salaries through a combination of state funding, membership dues, and revenue from advising. (3) It does not include any charge for faculty time.

So, where does this leave us? When you compare the revenue to our expenses for courses, we have a deficit of \$1,011,447. That's not good. This is the gap between our training costs and our training revenue.

Why is there a deficit? Our current formula for setting registration fees includes all of our direct costs, but it only covers a portion of our indirect costs. The way we have covered those indirect costs is through something called the course support fee, which is plugged into our worksheet along with direct costs to determine the registration fee for each course. We have been making incremental progress in capturing our indirect costs by gradually increasing the amount of the course support fee. It is \$25 per student, per day in our current formula—it would need to be \$45 per student, per day to cover all of our indirect expenses.

Just to be clear. The indirect expenses for courses is the cost of our professional staff that does such a great job in supporting them, and the course support fee is the awkward tool we have used to recover revenue for their salaries. We are going to implement a plan to recover those indirect expenses in a different way, but that will be revealed during a special ceremony at the roundtables.

Membership Dues

(+) \$532,000

We currently allocate 36% of our membership dues to cover some of our indirect expenses for courses. Put another way, we use this amount of dues money from local governments to reduce the cost of courses for their officials. This is one of the things that local governments get in return for their membership dues—lower registration fees. We allocate the same amount of membership dues (36%) to subsidize the cost of our publications, and we allocate the remainder of the dues (28%) to meet a portion of our general overhead expenses for the School.

If you are still hanging in there with me, you will see that this fiscal year we have **a projected shortfall of \$479,000.**



How have we covered this shortfall in the past? That is, how have we paid our employees? We always have had vacant faculty positions, sometimes a lot of them, and those unused salary dollars (“lapsed” faculty salary money) have been an important tool to close the holes in our budget. For many years our budget model has assumed that we will have at least \$250,000 available annually in lapsing faculty salaries, and historically that has turned out to be a conservative estimate. However, we have had no vacant faculty positions for a couple of years. This year we are using some of the income from our endowment to cover the gap, but that can only be a short-term solution. Other revenue sources help too. The amount of this shortfall can change based on lots of different variables, and I’ll mention some of those in the roundtables.

The main point of the roundtables is to discuss a two-year plan that will recover the full cost of providing our courses, which means recovering all of the indirect expenses needed to cover the salaries of our staff members who support courses. It is important that we do this now because it will give us greater flexibility in meeting future state budget cuts over the next couple of years.

I will review this material again during the roundtables, but I wanted to give it to you in advance as background for my presentation. I hope that giving it to you now will allow us to focus more time in the roundtables on the new system that we will be using to set registration fees and recover our costs. If this exciting discussion isn’t enough to get you to a roundtable session, there may even be holiday M & Ms. I apologize for such a long blog post, but believe me it could have been much longer.