

## ***Costs and Funding for YRO***

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As stated in the base assumptions presented by the Legislature, CSU agrees that “the state must provide adequate resources to support existing summer enrollment, enrollment growth in other terms, and maintain the quality of the academic programs, regardless of the term in which it occurs based on the agreed-upon marginal cost of instruction, as well as funding for plant maintenance and utility costs associated with increased facility usage, capital outlay support to provide adequate space for classrooms, class laboratories, faculty offices, instructional support, and research in accordance with appropriate standards.” Providing funds for increased FTE, at marginal cost, and providing budget allocations to cover the increased costs of utilities and maintenance and start-up costs, is essential to the success of a year-round operation.

### ***Marginal Cost***

Marginal Cost is the term used to describe the calculation of the cost associated with instructing one new FTES after adjusting for “economies of scale” agreed upon by the Department of Finance, the Legislative Analyst’s Office and the CSU. It is primarily driven by average costs per FTES included in the instruction, academic support, student services, and institutional support budget programs that are discounted by percentages calculated for fixed costs. The marginal cost methodology also recognizes the need for instructional

equipment (based on annual depreciation used to determine replacement costs) but excludes financial aid and physical plant operations/maintenance.

CSU enrollment requests are funded by the state's General Fund at the calculated marginal cost, less expected fee revenue associated with enrollment growth. The marginal cost methodology was developed at the request of the state legislature and was formally adopted in the 1996/97 budget process. The marginal cost components and calculation for 1999/2000 are included for information as Attachment H.

Managing within the agreed upon marginal cost funding is a fine art of balancing programs with high enrollments versus those with low enrollments, modes of instruction (lecture versus lab) which carry differing cost patterns, and level of instruction (lower division, upper division and graduate) where upper division and graduate courses generally have a necessarily lower student/faculty ratio. A greater number of options are available to campuses as enrollment grows and variety of instruction modes increase to assist them in achieving this balance. Incentives will need to be offered by each campus to engage cost-effective summer enrollments. Flexible scheduling (offering courses in sessions of varying lengths), targeting high demand programs where the enrollments during the academic year cannot be met, admissions predicated on summer attendance, and providing alternative pricing (per unit fee structures that offer an advantage versus current alternatives) are all incentives that may be part of campus implementation strategies.

### *Plant Maintenance, Utility Costs and Capital Outlay*

Actual increased maintenance and utility costs will depend on how quickly campuses are able to implement YRO and grow the summer term, the type of energy utilized for heating and cooling and related unit pricing, and what sort of adjustments campuses will need to make in the maintenance and custodial schedules to accommodate increased use of the facilities. All of this is currently unknown, since campuses have just begun planning for implementation.

Preliminary estimates of related cost increases were calculated in consultation with CSU facility directors using a 40% summer to fall FTES planning forecast for 2007/08. Existing maintenance and utility costs were used as a base with the exclusion of landscape and utility plant departments, which already operate year-round. In arriving at the incremental costs it was assumed that costs for personnel services would increase approximately five percent and that other operating expenses will increase approximately ten percent. The five percent increase in personnel services is projected to cover the increased cost due to shift differential, or additional staff, and/or a combination of both. The incremental increase calculated for the CSU is \$11.8 million – a total for the system in 2007/08 in unadjusted dollars.

CSU will monitor actual increased costs for maintenance and utilities as YRO programs are implemented, so that substantiated requests for additional funding can be made based on experience at individual campuses.

The CSU will also examine capital construction priorities through the five-year capital outlay planning process in light of the potential for using summer to deliver state-supported

instruction. New construction, energy related projects and building renovations would be evaluated with this opportunity in mind.

### ***Planning and Implementation Costs***

Additional one-time costs will be incurred to plan for and implement year-round operations. In CSU's 1999/2000 budget, \$2.2 million dollars were allocated for year-round operations preparation, planning and/or expansion. Campuses were invited to submit proposals for a portion of the \$2.2 million. Seventeen campuses submitted proposals and following a thorough staff review, ten campuses were awarded funds. Priority was given to campus proposals favoring new FTES generation, programmatic emphasis on teacher education, creative calendar options, and near-term capacity constraints. The proposals indicated that funds would be spent on categories such as the following:

- Environmental Planning - costs for formulation, printing, tabulation, analysis and publication of results to assess impact of additional term to the community.
- Marketing/Advertising – costs to develop materials (graphics, content, etc.), printing and mailing costs, radio and local television.
- Systems Programming – programming time to revise administration and student systems to accommodate another term.
- Hiring/Training Costs – one-time coverage of additional hiring costs and training time for student service areas and additional faculty.
- Curriculum/Calendar Redesign – course redesign, administration, enrollment planning and scheduling activities.

Based on the proposals, estimates of \$300,000-\$500,000 per campus for planning/implementation of YRO for limited program areas appear reasonable. In the 1960's similar funding was provided (adjusted for inflation) to campuses to plan the YRO implementations that were ultimately truncated. As campuses begin to plan and implement summer terms, dollars to cover the costs associated with the endeavor must be provided. CSU will continue to apply the \$2.2 million toward such efforts, turning to the state for additional funds only if required to accelerate YRO implementation.

### ***Student Financial Aid***

From the student's perspective and as a concern for the campus in achieving a cost-effective enrollment level, the availability of student financial aid in the summer months is an important consideration. Currently, over fifty percent of CSU annualized college year headcount enrollment relies on student financial aid in meeting some portion of their college costs. Potential demand and utilization of expanded YRO could be impacted based on the availability of financial aid for these students.

Primary considerations relative to student financial aid and year-round operations are whether the summer enrollment period is structured as a "standard term" or as a "non-standard term" as defined by the Federal Department of Education (ED) and whether students enroll in the summer to augment their enrollment during the regular academic year or substitute summer enrollment for one of the regular academic year terms. ED recognizes "non-standard" terms for financial aid purposes but determination of eligibility and awarding financial aid for such terms is complicated. Generally, the federal student aid programs are predicated on students attending for an academic year, typically two semesters or three quarters.

Current Federal Pell Grant statute provides that a student may receive only one Pell award during a year. The statute provides that the Secretary of Education may authorize students, on a case-by-case basis, to receive more than one Pell Grant in a year if sufficient funding is determined to be available. To date, there has not been sufficient funding. The concern with increasing the allowable coverage of the Pell Grant for students enrolling year-round is prompted by wanting to ensure that students who accelerate their progress toward a degree are not penalized by having to forego their full entitlement to and utilization of the Pell Grant, having instead to resort to increased borrowing. Beginning with 1999, the California Student Aid Commission is required, for Cal Grant recipients, to provide payment of awards proportional to the period of additional attendance for students enrolling in summer terms.

In order to estimate the unmet need for financial aid in the summer and the additional aid that would be needed to make summer aid equivalent to other terms, calculations were based on the following assumptions:

- During 1998/99 12,018 financial aid recipients enrolled "year-round". It is possible that some of the students who enrolled summer 1998 and the entire 1998-99 academic years also enrolled for summer 1999.
- Summer term would correspond to the term for the regular academic year, i.e.; quarter campuses would hold a regular summer quarter (ten weeks) and semester campuses would hold a regular summer semester (15 weeks). Any variation from this assumption would mean a shorter summer term with an appropriate reduction in student budget, need, and required aid; however campus-processing costs would be increased.
- Available State University Grant (SUG) funding would increase as a result of increased summer enrollments and fee revenues.
- Cal Grant recipients would use a proportion of any remaining eligibility during periods of summer enrollment.

Based on the above assumptions, the average unmet need of a student after including summer enrollment is \$2,674 per needy financial aid recipient, an increase of \$2,091 per needy aid recipient from the average unmet need for the academic year. This assumes that the State University Grant recipients would receive a corresponding increase in their grant for summer and that all aid recipients would borrow up to the maximum allowable for the award year. Assuming that all aid recipients who currently enroll for the entire academic year would

enroll year-round and that the student could actually tolerate a portion of the unmet need, the demand for financial aid (from all sources) would increase by approximately \$165 million.

The assumption that Cal Grant recipients would utilize a portion of eligibility for summer would result in the need for CSAC to advance CSU students approximately \$8.2 million for summer terms through Cal Grants, A, B, and T programs.

While any increases in financial aid funding would be beneficial for students, no expectation is being made that such levels of additional financial aid would be possible. The situation does, however, reinforce the reality of a lower expectation for potential levels of summer enrollment if the state determines not to fund or cannot fund these financial aid costs.