Revenue Sharing:

A Tiger by the Tail

Gary W. Penders
University of California, Berkeley

The dynamics of a self-supporting summer budget consist of a simple, three-step process. First, self supporting programs must pay all direct operational costs; second, revenue must exceed expenses; and third, the institution must decide what to do with the surplus. As with most summer term administrative processes, there are almost as many answers to that final question as there are programs. In some places, the money goes to the central administration. In others, a reserve account is created that is used for a variety of projects, which may or may not relate to the summer program. In still others, there may be incentive pay for faculty, grants for program development, or a subsidy for academic projects of value to the institution.

Summer deans and directors usually approach the question of the disposition of surplus revenue from the standpoint of the summer program itself. Their interest is in using these funds to improve or expand summer offerings, or to provide an incentive for academic departments to design more efficient and profitable programs. It is this latter purpose that is best served by revenue sharing.

Benefits and Drawbacks

Revenue sharing is sometimes called profit sharing, a somewhat imprecise term that does not recognize the institutional subsidy that most summer programs enjoy. It may be defined as returning a portion of surplus revenue to the academic units responsible for scheduling and staffing summer courses, without a corresponding decrease in other funding. It is primarily an incentive which rewards high average class size, low average faculty cost, and low instructional support cost.

To a summer director, the administrative benefits of revenue sharing are considerable. Academic departments come to share the director's goal of mounting an efficient and marketable program. Schedules are driven more by student needs than by faculty interests. Management becomes a partnership between the summer staff and the academic departments, who are all pulling in the same direction. External threats to the summer program are met with unified and powerful resistance. The program becomes very stable and expands to its optimal size.

There are drawbacks, however. Once in place, having revenue sharing is like having a tiger by the tail—there is no letting go, no matter what happens. Once they are rewarded for their work, academic departments will never again produce without the reward. Moreover, there will be lobbying on their part for an ever increasing share of the surplus, and resentment if their efforts in a given year cause a decline instead of an increase in surplus revenue. They will complain about late drops, about late calculations of the surplus, and late allocation of funds. In some cases, they will spend the money before they get it. What is worse, they may spend more than they end up earning. They will look to the summer director for advice on how to maximize the surplus, and will remember if the advice was wrong. They will try to discourage ladder-rank faculty from teaching in the summer, and will staff their courses with lecturers and graduate students. They may begin to believe that a decentralized summer program, with all revenue going to them, is a good idea.

The strategies that summer directors can use to counter these drawbacks are fairly straightforward. In a revenue sharing environment, the summer director must become an expert in developing and marketing the program as a whole. Academic quality must be maintained by encouraging a balanced average faculty rank, and by developing programs that involve senior faculty in ways that do not seriously reduce the surplus. The director must become the chief analyzer of data, and control both the number of classes offered and the scheduling pattern—including session dates, days, and times—to maximize enrollments across department boundaries. The summer catalog and web site must be generally recognized as the central marketing tool of the program. If the partnership is to work, the academic departments must feel they need only to follow guidelines in creating their program, and they must trust the summer director to package and market that program in such a way as to bring in the highest possible number of students. This is the correct division of labor in summer administration—with the central office performing central functions, while each academic area deals with its own faculty and students.

Mixed Incentive Model

Revenue sharing has several models. In the most complex version, there is an attempt to reward more than profitability. We can call this the "mixed incentive" model. In this approach, the program's net revenue is calculated, and the amount to be shared is identified. It is then divided into three parts. The first part, 40 percent of the whole, is allocated to academic departments based on their net revenue over expenses, rewarding profitability. The second part, also 40 percent, is allocated based on total enrollments, rewarding departments that bring in large numbers of students. The third part, the remaining 20 percnt, is allocated by the director to those departments which exibited good management, rewarding such activities as reducing deficits, scheduling low enrollment courses that are needed by students to enable them to graduate in the summer, and other similar enterprises. The mixed incentive model does not allow departments to know their revenue share until the point of allocation.

True Profit Model

The second model is simpler, and we can call it the "true profit" model. In this approach, the summer program's net revenue is calculated, and the amount to be shared is identified. It is then allocated to those academic departments who produced a surplus on a straight percentage basis. That is, if a given department earned 10 percent of the net surplus, they receive 10 percent of the shared revenue pool. The true profit model does not allow departments to know their revenue share until the point of allocation, but they can know the percentage that will be applied by being informed, from time to time, of the status of all departments. In this model, the budget performance of the summer office is highly visible, with great emphasis on keeping non-instructional costs down and ensuring that all departments are profitable.

Instructional Surplus Model

The third model is even simpler, and we can call it the "instructional surplus" model. In this approach, summer fees are divided into two parts, one to cover non-instructional costs, and one to cover instruction. Typically, there is a registration fee for non-instructional costs, and a per-unit course fee for instruction. Departments receive a percentage of the net instructional revenue, which is the difference between the cost of instruction and the total of the course fees paid for each course in their schedule. In the instructional surplus model, departments can know the status of their revenue share amount from day to day if they, or the summer office, maintains a spreadsheet with expenses by course and revenue calculated with current or projected enrollment. In this model, the fact that the registration fee covers non-instructional costs masks the budget performance of summer administration, which becomes irrelevant to the surplus revenue distribution.

Conclusion

The decision to implement revenue sharing should be made with caution. It is a good idea if the present state of summer term administration consists of struggling to create a viable program in the face of departmental apathy, or of fighting to maintain some level of surplus revenue when the only departmental incentive to participate in summer is to employ as many faculty as possible. It is also a good idea if there is considerable capacity for growth in the size of the program, if there are student needs not being met during the rest of the academic year, or if there is pressure from the central administration to be more profitable. It is not a good idea if the size of the program is already optimal, if students are well served by the existing schedule, or if the campus uses surplus summer revenue for purposes generally supported across campus which would be eliminated by a change.

Whether or not to grab this particular tiger by the tail is also affected by where in the campus organizational hierarchy the summer director wants to spend his or her time. When it comes to the teaching mission of a college or university, the academic department is where the rubber meets the road. With revenue sharing, that is also the level at which the summer director functions best.

Gary W. Penders is Director of Summer Sessions at the University of California, Berkeley, and can be contacted by mail through the Office of Summer Sessions, University of California, Berkeley, Berkeley, California 94720; by telephone at 510/462-2700; or by e-mail at <gwp@mail.summer.berkeley.edu>.