

**Principles, Strategies, and Guidelines  
For Increased Alternative Revenue Streams  
in the  
K-State Research & Extension System:**

**Focus on the Cooperative Extension Programs**

State and Area Specialist Guidelines

Adopted November 3, 2003

## **BACKGROUND**

In an era of increasingly tight budgets, it is necessary to consider alternative revenue sources and revenue generation strategies to continue funding quality programs and services. As we move to develop strategies for collecting these revenues, it is important to understand the original rationale for extension programming and to articulate a set of principles to guide the process.

The Cooperative Extension Service (CES), Agricultural Experiment Station (AES), and the Land Grant College System were established in an era when our society was dominated by small-scale agriculture. Incentives in the private sector for developing and delivering information on agricultural technology or practices were minimal. The CES was established as a means for farmers and farm families to learn modern agricultural technology and practices in an affordable, accessible manner. Improving the well being of individual farm families also advanced social welfare and economic development. Initially, few alternative providers were available for the kinds of information Extension and the land grants provided. As alternative providers for information on agricultural and food technology became available, issues of affordability of access for certain groups became more important.

Cooperative Extension programs and services are provided for the public good. Traditionally, programs and services have provided a general benefit to society as a whole or to broad cross-sections of that society. Early in the CES history, these programs were vital in maintaining food security in a rapidly growing nation. Farmers and ranchers were given opportunity for adoption and diffusion of efficient production practices within a largely agrarian nation. As the nation, agriculture, and the CES are maturing, much programming is still directed at providing general benefits to broad populations. The CES still provides agricultural production services, but has added resources to youth, family, and community-based programs, as well as educational services. These programs provide a public benefit through the enhanced social and physical environments in which we all live.

Social, economic, and political environments have also become more complex. The CES is asked to apply expertise gained through public funding to individual situations that may be very specific in scope and resulting benefits. In situations where the economic benefits of the CES accrue only to a small easily defined population, Extension needs to recover costs of providing these services. This needs to be done for two basic reasons:

- § First, to assure that the CES can maintain quality public programming by replacing the resources utilized by more specific requests.
- § Second, to assure that the CES is not unfairly competing with private providers of commercial services by providing a publicly subsidized alternative.

Within the USDA legal rulings and administrative guidelines, as outlined in a report to the Extension Committee on Organization and Policy (ECOP), from the ECOP Personnel and Organizational Development Committee, dated October 2001, and the Kansas statutes that provide guidance for the conduct of county/district extension programs, it is the purpose of this document to help define the principles by which the CES can consistently recover costs incurred by responding to highly targeted requests while continuing to provide unrestricted access to high quality public programs and services. (For additional information, see **Attachment 1.**)

## **Part One: Guiding Principles Regarding Revenue Generation**

**Objective:** To establish a set of principles that K-State Research and Extension will use to develop a revenue generation policy. These principles must be easy for staff and faculty, and county extension council members, to understand and communicate. As well, they must be consistent with our land grant mission.

### **GUIDING PRINCIPLES**

The following guiding principles are to be used in formulating revenue generation strategies. A glossary of terms is provided in **Attachment 2**. These guiding principles are fundamental values that should guide K-State Research and Extension (KSRE) as it generates revenue:

#### **MISSION**

1. **Mission drives program:** Revenue generation should advance the mission. Revenues need to be calculated, assessed, and used to support KSRE's mission, *"Dedicated to a safe, sustainable, competitive food and fiber system and to strong, healthy communities, families, and youth through integrated research, analysis, and education."*
2. **Appropriate sources:** Revenue sources should be ethical and legal and not compromise the integrity of the organization. Alternative revenue sources should be identified and assessed as to their appropriateness. Revenue generation needs to relate to KSRE program areas and program missions. (such as the KSRE core mission themes and long term intended outcomes)
3. **Appropriate uses:** Revenue sources may be used to maintain, enhance, or expand the educational outreach of KSRE.
4. **Public good and individual advancement:** The revenues should be used to promote the public good (for society) and individual citizen advancement.
5. **Responsibility of all faculty and staff:** Revenue source identification and acquisition to support priority programs and services is the responsibility of all KSRE employees. Accuracy and completeness of determining the costs is the responsibility of all faculty and staff.
6. **Efficiency and effectiveness:** Attention must be paid to the cost/benefit ratio of programs. Faculty, staff, and clientele must recognize the total cost of programming, including K-State Research & Extension organizational support.
7. **Teamwork:** Creative success must yield better programs and services, which are likely to follow enhanced teamwork and effective interdisciplinary cooperation.
8. **Planning for endings:** Programs and services funded by revenue generation resources often have specific beginnings and endings. Plans should be in place to make timely decisions regarding the priority of the program or service and whether it is appropriate to shift the program to some form of on-going funding.

## **STAFF**

9. **Fairness in the performance appraisal:** Performance appraisals will be based on solid needs assessment, program planning, resource identification, implementation, and evaluation. Based on the preceding expectations, efforts to utilize revenue generation fees, sponsorships, grants, contracts, institutes, and any other sources of revenue will be discussed during performance appraisals.
10. **Flexible employment arrangements:** The KSRE revenue generation system can be used for non-traditional employment models such as less than 100% time, short term, non-tenured, and contract employees, etc.
11. **Comparable/equitable pay:** The KSRE system must assure the support of comparable/equitable pay for comparable work for all faculty and staff regardless of source of salary and support funds. At the same time, the KSRE system may need to realize that market forces also may affect final compensation.
12. **Accountability:** All KSRE personnel and Extension councils should receive education and support for acquiring and managing grants, contracts, sponsorship funds, and fee income. This would include an ongoing commitment of active administrative support in addition to staff training.
13. **Incentives:** Incentives should be guided by the core mission themes for KSRE – and core values of integrity, scholarship, leadership, communication, and inclusion. Incentives should recognize those personnel and teams who are successful in generating additional dollars into the system through revenue generation, sponsorships, grants, and contracts. Success in revenue generation, sponsorships, grants, and contracts should not threaten the core budget of the program unit. Successes will be used as case studies to guide system wide improvement.

## **ACCESSABILITY**

14. **Access:** Extension educational programs and services are open to all regardless of individual ability to pay. Source of program and service funding should not change this availability to all. An equal opportunity statement needs to be included whenever a cost-recovery fee is charged. A sample statement: **NO ONE SHALL BE DENIED THE OPPORTUNITY TO PARTICIPATE OR RECEIVE INFORMATION BASED ON THE ABILITY TO PAY.**

Knowledge of, and commitment to, these principles must permeate the extension system at all levels as strategies are developed.

## **Part Two: Recommendations on Level and Degree of Revenue Generation**

**Objective:** To establish recommendations on the levels of revenue generation, and how they might vary by client, program area or service supplied. Clear policies are needed on the level and rationale for the charges.

### **RECOMMENDATIONS**

The following recommendations are to be used in formulating the level and degree of revenue generation. These recommendations are:

1. A system-wide commitment to a strategy for revenue generation must be a dynamic process designed to meet the needs of Kansans.
2. Revenue generation must extend program delivery and implementation beyond the public's usual expectations of KSRE, rather than limit audience participation, impact or involvement.
3. The process must be readily understood by faculty/staff and customers and be widely and clearly communicated both on and off campus. This would include an ongoing commitment of active administrative support in addition to staff training.
4. Strategies for generating revenues must value and honor present and future partnerships.
5. KSRE programs/services to Kansans will be driven by the needs and interests of the customer clientele.
6. The revenue generation determination process must be flexible in marketing, delivery and implementation to meet the specific needs of program areas and audiences.
7. Cost recovery fees may not extend to offsetting the salaries of faculty or staff who are funded by any portion of county, state, or federal general-purpose revenues.

### **PROGRAM CATEGORIES**

**Category 1** - classifies those programs/services fundamental to the mission of K-State Research and Extension. These programs would be offered at no charge or at most a charge to cover out-of-pocket expenses. (e.g. County office visits; general county informational meetings; and agent consultations with local constituents. For instance, state law prevents charges from being assessed for 4-H club membership)

**Category 2** - classifies those programs/services that are highly targeted and context specific. These programs/services would be offered at a charge to cover out-of-pocket expenses, travel costs, costs for personnel not funded through county, state, or federal general purpose revenues. (E.g. in-depth field schools and short courses; multiple series training/educational sessions; 4-H camps; testing services where the databases created from the analytical work represent great value to the mission of KSRE)

**Category 3** - classifies those programs/services designed for a specific individual, group, or business. The benefits accrue primarily to an individual or narrowly defined group. These programs would be offered at a charge to cover out of pocket expenses, personnel costs (not to offset general purpose revenues), travel costs, and system costs. (e.g. testing services where the databases created from the analytical work are of minimal value to the mission of KSRE; certification training to specific clientele for their professional credentials; individualize business / financial analyses requiring significant time commitment of a professional)

One-on-one education, as perceived to be different from Category 3 programs/services, provided to a specific individual, group, or business does represent a common delivery of educational information through KSRE. Faculty are urged to engage in one-on-one education that will benefit the public good, professional improvement, and KSRE. In that context, short-term one-on-one education is encouraged, as deemed appropriate to achieving specific intended outcomes within KSRE core mission themes. Longer-term consultations involving benefit primarily to an individual or narrowly defined group are discouraged as KSRE business. Such consulting should only be taken under the specific guidelines of University and KSRE policy. Solicitation for consulting, as a KSRE employee, is specifically prohibited by University policy.

Using the Revenue Generation Guide Sheet, classification of specific programs/services would be determined by the individuals involved in designing and implementing the program. Support for decisions on revenue generation can be sought through appropriate program director/area director/administrative unit leader and the lead subject-matter staff.

## **PROCEDURES**

1. KSRE will be guided in decisions on appropriate revenue generation strategies by the following items:
  - Revenue generation Guide Sheet - **Attachment 3**
  - Program Cost Work Sheets and directions - **Attachment 4**
2. These instruments will serve faculty and staff in determining real deliverable program or service costs, and not as any form of approval sheets needing signatures.
3. These instruments will be available electronically via KSRE Intranet.
4. These instruments are primarily decision tools for KSRE program/service development.

## Attachment 1

### Research & Extension Programming as a Public Good

The US economy relies heavily on market prices to drive production and consumption decisions for private goods. These market signals are unreliable for guiding the provision of public goods and in cases where externalities occur. Commodities or activities referred to as public goods exhibit two important distinguishing characteristics. First, public goods have the property of *nonrivalness* or joint consumption. This means that one individual can consume the good without detracting from the benefits simultaneously accruing (from the same good) to other individuals. The second property of public goods is *no excludability*. No excludability means that it may be impossible, or very expensive, to exclude particular individuals from the consumption or use of the existing output from the public good. There are very few examples of pure public goods; however, some goods do exhibit a significant degree of nonrivalness and no excludability. Typical examples of public goods include law enforcement, flood control, radio and television broadcasts, national defense, and public information. Most public goods are not pure in the sense that no congestion or decreased usefulness occurs from high levels of joint consumption.

Nonrivalness and no excludability make it difficult to rely on market mechanisms for allocating resources to public goods. Because of no excludability, the users have no incentive to voluntarily pay for the public good since they can consume it free of charge, (unless funding is done through coercive means such as taxes.) This failure of the voluntary pricing system is referred to as the *free rider problem*. Since the public good is already being provided and there is no means to efficiently collect fees for services, the individual has every incentive to use the service and not pay for it. In addition to the pricing problem for these goods, there is also the problem of determining the quantity to provide.

Public goods often have *externalities* associated with them as a result of being a jointly used good. Beneficial or detrimental externalities arise when the activities of an individual or group affect others. These externalities are the unintended byproduct of individual or group behavior. In a positive direction, externalities from public goods like health service, nutrition programs, and education can reduce communicable diseases and improve over all quality of life for everyone in a community. Negative externalities like airport noise and highway congestion occur from public provision of transportation services. Pollution and odors from livestock production and visual amenities from greenbelts are common examples of detrimental and beneficial externalities from private activities. Because the market pricing system does not incorporate all the social costs and benefits associated with particular activities, governments have found it appropriate to support activities that are felt to generate beneficial externalities and to restrict or tax those activities that produce external costs. For example, education is subsidized not only because it helps increase equal opportunity for all citizens but also because it is felt to generate beneficial externalities such as a safer, more informed society. Although education is available through private sources, society has come to believe that if only profit-making institutions offered education, the output of these education services would be provided at less than optimal levels.

It is appropriate to charge some level of fee for Research & Extension programs and services if the benefits are captured exclusively, or primarily by that particular audience to the exclusion of anyone else using that information. Adjustments to these charges can be made if the group is economically disadvantaged or if broader social benefits can be achieved by working with that particular audience. When similar programming can be used with other audiences, it is an argument for reducing the level of fees.

- Adapted from "Recommendations to Guide Future Cost Recovery Policy for Iowa State University Extension, March 23, 2001 (Final Draft)

## Attachment 2

### Glossary of Terms

Revenue Generation Fee	A charge, usually monetary, that Research & Extension collects from individuals or groups to recover certain costs of developing and delivering a program or service.
Program	Activities or events conducted by Research & Extension to improve quality of life.
Service	Assistance provided by Research & Extension to diagnose and/or find a solution to a problem.
Base Programs	Fundamental programs and services that have evolved from clientele needs and are defined by Research & Extension staff and resources.
Resource Tracking System	A process and data entry form aimed at consistently capturing and archiving total costs associated with developing and delivering program/services provided by Research & Extension.
Host Unit	The unit primarily responsible for coordinating and carrying out the program or service. It could be County Extension Council, a Research & Extension Center, an academic department, etc.
Out-of-Pocket Costs	Those costs that are incurred for a program/service that aren't covered by an existing budget. Examples would be food costs, material costs, room costs, audiovisual costs, postage costs, and honorarium for non-Research & Extension speakers, etc.
Personnel Costs	Personnel related costs (salary, travel, other?) related to the delivery of a particular program/service that are currently in an Extension budget, but could be recovered through a user fee, if deemed appropriate. These costs would include salary, benefits, and travel costs for secretaries, County, Area, and State faculty, etc.
System Costs	These are administrative costs, support services costs (accounting, payroll, human services, communications, computer support, etc.), personnel costs <i>involved in program/service development, value of space and utilities, equipment depreciation, etc.</i>

### **Attachment 3**

### **Revenue generation Guide Sheet**

The individual or team planning the program should complete this revenue generation guide sheet before doing the Revenue Generation Worksheet for a program/service. Answer the questions to the best of your knowledge. As you work through the sheet, you will develop a picture of your program/service, the audience it serves and how it fits into the overall Extension program. This information will provide the rationale for your decision process and give you a basis for setting a fee for revenue generation.

Title of Program/Service \_\_\_\_\_  
Person/Team Completing Worksheet \_\_\_\_\_  
Client Contact \_\_\_\_\_  
Date \_\_\_\_\_

1. Does program/service relate to your plan of work or action plan? (add plan of work number if appropriate) (Category 1)
2. Which program category (1 through 3) do you believe best describes this program or service?
3. Is program/service for a targeted audience? (at risk, low income, minority, underserved, beginning farmers)
4. What is the nature of the audience? (individual, group, agency, organization, collaboration)
5. What is the ability/opportunity of audience to pay? What relationships might this decision impact? (positively/negatively)
6. Are there other outside funds that support this program/service? (Sponsorships, grants, contracts, etc.)
7. What is the anticipated impact of the program/service? (potential number in audience, behavior change, economic gain)
8. What is the geographic scope of the program/service? (county, multi-county, area, state, multi-state)
9. Is the impacted audience beyond Kansas?
10. How much staff time (involvement, level) does the program/service take?
11. What are the implications of your decision on revenue generation on other extension units (counties, areas, department program units)?
12. Who needs to be included in conversations about these implications?

## Attachment 4

### Program/Service Costs Calculation Worksheet Directions

The worksheet determines all expenses associated with a KSRE program or service, regardless of any plans you may have for a user fee associated with the program or service. Consider the worksheet as a planning tool to determine realistic costs for carrying out the program or service. The worksheet covers out-of-pocket costs, personnel time and travel costs, and system costs. The worksheet is protected. Only the white cells can have information inserted. The TAB key will move the cursor to those cells. The yellow and gray cells are locked because they contain formulas.

#### Instructions for Table A.

**Out-of-Pocket costs:** These are expenses that would not be incurred unless the program/service is offered; these expenses aren't currently budgeted anywhere. These are expenses such as refreshments, meals, room rental, supplies, postage, advertising, costs of non-KSRE speakers, etc. All these expenses can be entered directly into Table A. Include notes to remind you how your costs were determined.

**System costs:** In addition to out-of-pocket, personnel, and travel costs, additional system costs accrue when any program/service is delivered. These are administrative costs, support service costs (payroll, bookkeeping, communications, computer support, preparation of grant and contract proposals), value of space and utilities, etc. It is difficult to attribute specific dollar amounts for each of these "system" categories to a particular program/service. Therefore, a percentage of the out-of-pocket and travel expenses, consistent with KSU system costs (26% for off-campus; 36.5% for on-campus programs) for grants and contracts through Extension can be used. This system cost recovery would be most appropriate in setting fees for a Category 3 program. To change that formula to some other level of system costs, you will have to "unprotect" the worksheet and change the percentage value in the formula.

#### Instructions for Table B.

**Personnel and Travel costs:** Personnel costs for staff, agents, and faculty on Extension appointment are calculated simply to recognize the overall cost for a program. Only under very unusual circumstances when conducting a category 3 program should these personnel costs be included in estimating the costs that should be recovered. In general, user fees should not include any costs that would involve offsetting of salaries of agents, faculty, or staff who are paid out general-purpose county, state, or federal revenues. Salaries and benefits of personnel who are not paid out of general-purpose revenues are appropriate and can be included as "other personnel costs". You can use your own figures for actual salary and benefits costs or simply insert statewide average costs as shown from fiscal year 2002 below.

The statewide Average Hourly **Salary/Benefits Costs** for KSU are:

County/District Extension Agent	\$25 (Assumes \$40K salary + 30% benefit)
Faculty – State and Area	\$44 (\$70K salary + 30%benefit)
State Program Assistant	\$16
County Office Professional	\$11
County Program Assistant	\$11

All travel expenses should be calculated using regular mileage and per diem rates. Recognize that KSRE is obligated to serve the entire state, regardless of the distance from campus, while at the same time it does indeed cost more to travel to the border counties. These costs are for planning purposes, and negotiations are expected to occur between agents and faculty to assure fair and equitable availability of specialists among all counties across the state. All totals will transfer to Table A.

**Instructions for Table C.**

The only entries that can be made in Table C are the amounts paid by a client. This may be the case for an individual consultation or some other form of payment for a program or service. Additionally, if you have sponsorship monies donated for the program or service, those amounts could be inserted into the table as “paid by partners”. You can list any of the clients or partners, from whom you would be receiving revenues, in the spaces provided below the Table.

Calculations will show the estimated cost per participant in two ways. The first is excluding those costs that would involve salaries of agents, faculty, or staff who are paid out general-purpose county, state, or federal revenues. The second shows a cost including all personnel time. The worksheet can be used: 1) to estimate anticipated expenses before a program or service is offered, and 2) to calculate actual expenses once the program or service has been completed. Filling out the worksheet as accurately as possible should result in a better understanding of the total cost incurred in the development, coordination, and delivery of a program or service by KSRE. Once a program or service cost is calculated, decisions can be made on how much revenue is desired to come from conducting this program or service.

SCHEDULE OF CHARGES

DEPARTMENT OF \_\_\_\_\_

- \* The University may collect only those charges established by the Board of Regents or listed on an approved "Schedule of Charges"
- \* The charges listed below are in compliance with the Board of Regents Policy on Sales of Products and Services, PPM 3080 and the University's Policy on Schedule of Charges, PPM 3085.
- \* Related sales tax must be assessed when appropriate.

Description of the products or services (Please number each one consecutively and attach a "Schedule of Charges Justification" form for each charge)	Amount

As of the date of final approval, the charges listed above are hereby authorized for the products or services listed.

Submitted:  Department Head _____ Date _____	Approved:  Controller _____ Date _____
Recommended:  Dean or Director _____ Date _____	Approved:  Vice President for Admin. & Finance For The President _____ Date _____

Kansas State University  
Manhattan, Kansas

Schedule of Charges Justification

The following product or service is an integral part of, or reasonably related to, an activity essential to the fulfillment of the University's mission of:  Instruction  Research  Public Service (choose one only).

Department: \_\_\_\_\_

Description of Product or Service: \_\_\_\_\_

Reason for Charge: \_\_\_\_\_

Anticipated Method of Selling Product: \_\_\_\_\_

Anticipated Revenues: \_\_\_\_\_

Percentage of Internal Customers: \_\_\_\_\_% External Customers: \_\_\_\_\_%.

Cost Breakdown (be specific):	<u>Internal Rate</u>	<u>External Rate</u>
Salaries, Wages & Benefits:	_____	_____
Supplies & Materials:	_____	_____
Contractual Services:	_____	_____
Depreciation:	_____	_____
Other:	_____	_____
Indirect Costs:	_____	_____
(See PPM3085.070 for Depositing Instructions)		(External Only)

Total Charge for Product or Service: \_\_\_\_\_

**I CERTIFY:**

- 1) This product or service is in compliance with the Board of Regents Policy on Sale of Goods and Services (PPM3080).
- 2) Unallowable costs per OMB Circular A-21 are not included in the charges.
- 3) Procedures are in place to ensure a **break-even** pricing schedule.
- 4) The Federal Government is receiving the lowest price.
- 5) The rate listed above will be charged uniformly to users.
- 6) All revenues and expenditures related to this product or service will be recorded to FRS Account \_\_\_\_\_

\_\_\_\_\_  
Department Head                      Date

\_\_\_\_\_  
Dean or Director                      Date