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Which Type of Cost Recovery Fits Our Extension Program?
Extension Economics Notes # 2012-1

As public funding for Cooperative Extension declines, the continuation of many programs and events depends on new funding. This *Note* explores five cost recovery options: grants, contracts, gifts, sponsorships of events, and user fees. Table 1 summarizes the features of these with details after the table.

Table 1: Features of Extension Cost Recovery Options

	Grants	Contracts	Gifts	Event Sponsorships	User Fees
Financial Potential					
Revenue Levels	Usually modest but sometimes large	Sometimes Large, but Rare	Sometimes Large, but Very Rare	Generally covers incidental costs	Vary widely
Potential for Growth	Limited	Small	Small	Very Large	Very Large
Time Requirements					
Time Required to Secure Funding	High	High	Very High	Moderate to Low	Moderate to Low
Competition for Funding	Very High	Varies	High	Low	Low
Extension handles logistics	Yes	Yes	Yes	No	Yes
Balancing Mission and Money					
Risk of money driving mission	High	High	Varies	Low	Low
Benefits must be obvious or well documented	No	No	No	Moderate	Yes
Efficacy for high public value programs	High	High	Varies	High	Low
Works for low income groups	Yes	Yes	Yes	Yes	No
Feedback and Political Support					
Peer Review & Feedback	Very High	Moderate	Low	Low	Low
Participant Feedback	Low	Low	Low	Moderate	High
Cost of collecting broad-based political support	High	High	High	Low	Moderate

Extension Economics Notes may not reflect the views of the University of Minnesota or its units. I appreciate the feedback from several colleagues but any errors or omissions are my responsibility. From 1974 to 2002 I was a faculty member and Extension economist at South Dakota State University, Ohio State University, and University of Minnesota. From 2002 to 2007 I served as the Associate Dean and Director for the University of Minnesota Extension.

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Exceptions and nuances are very likely for specific programs. Hence, after reviewing the ensuing elaboration of these features, ask your program team to discuss the pros and cons of each cost recovery method for your program.

Financial Potential

Cost recovery is about the financial support of programming, so I start by examining these features.

Revenue Levels: Sometimes grants, contracts with governmental agencies, or gifts are multi-million programs. But these are relatively rare. Since sponsorships can be negotiated in advance of the event, they are always adequate for incidental costs and they remove the risk of low revenue due to low attendance. User fees have been the smallest source of cost recovery in the past but also offer the greatest potential for expansion. As explained in detail in *Extension Economics Notes # 2012-2*, many types of program can charge fees for some or all of their expenses.

Potential for Growth: In specific areas, there is great potential for growth in grants. However, public funding of grants and contracts is likely to shrink as federal deficits are reduced. Already event sponsorship is growing rapidly in popularity among Extension staff. User fees are so low, relative to costs and to fees in other services, that they offer considerable room for growth.

Time Requirements

Time is the major obstacle to using more cost recovery options, so three aspects of this are examined next.

Time Required to Secure Funding: Generally, the greatest amount of background work goes into donor development work and gifts. Grants also take a lot of time to prepare but often only a few proposals are funded. Most grant proposals can be recycled to other funders but this takes time. While sponsorships and user fees could be established very quickly, impetuous action with these approaches risks adverse reactions from the participants. However, a thoughtful and incremental approach to setting sponsorship fees and user fees has more certain results than for grants or contracts. For details on how to set fees for your program see *Extension Economics Notes # 2012-4*.

Competition for the Funding: All of the funding options face competition but it varies in nature. Many grants have very large numbers of applications and low acceptance rates. Further, grant writing is a skill that few faculty and extension field educators have. To some degree this is also true for contracts and gifts. If Extension is providing a program which other agencies or private sector groups are not offering, then there is little competition in the use of sponsorships or user fees.

Others Do Event Logistics: If a program can avoid expenses and save costs, it also is ahead financially. The major financial benefits of the sponsorship model are not the funds paid to the Extension program but the time and direct expenses saved. In sponsorship arrangements, the Extension program charges the sponsor (an organization or firm) a flat fee for a program event with an estimated number of attendees, removing risk due to low attendance. As important, the sponsor is required to handle the following logistics:

- Promote of the event and recruit the audience;
- Find and pay for the venue and AV equipment for the event;
- Arrange and fund the meal, if there is one;
- Handle the registration of participants in advance of the session; and
- Handle local media coverage.

For reasons that groups might sponsor an educational event, see www.raise-funds.com. In Extension, sponsorships have been used successfully for programs on retirement planning, farm financial planning, and for business retention. When sponsors handle all of these logistics, the time and direct financial costs which this saves the Extension program team allows the team to work with more places and more people.

Balancing Mission and Money

“No money, no mission” is a common maxim for non-profits. But in Extension it is common to refer to “balancing mission and money.” How does each of the cost recovery options impact the mission?

Risk of Money Driving Mission: As Extension teams start to focus on cost recovery, sometimes there is the risk that the funding drives the program rather than the mission driving the funding. Because of the size of grants and contracts, this danger is sometimes the greatest for these funding sources. Sponsorships and user fees are often developed after the program is established and has been tested in pilot programs, reducing the risk of this conflict. However, none of the funding options need to have this problem if an Extension team constantly puts its educational mission first and considers the aspects of education in which it has a comparative advantage.

Benefits Must Be Well Known: A major advantage of grants is they can fund integrated research-extension programs which deal with major issues requiring a rigorous research component. Research that tests the effectiveness of programs is too expensive for user fees and sponsorships. Further, user fees will not work with a brand new program event for which the benefits to the participants are unknown. The exception to this is when the provider is very well known and has a reputation for delivering very strong programs in the past and the leadership of the external groups representing the audience strongly endorses the effort. This is why many programs start with “pilot programs” at reduced rates. Sometimes, the full rate for sponsorship or user fee is announced in advance with everyone in the pilot given a “special rate.” Frequently, the new programs start on grants, move to a mix of grants and fees, and sometimes move completely to fees or sponsorships as the program’s reputation grows.

Efficacy for High Public Value Programs: First, a reminder on the difference between private value and public value. Private value is the value that program participants receive from being in the program. The higher the private program value, the more people are willing to pay in user fees for the program. Without any private value, there are no participants, even if the program event is free. Public value is defined as the value that non-participants get as an indirect spillover from the impacts of changes in behavior by the program participants. For example, if Extension’s nutrition programs leads to less obesity, this will reduce the costs in the health care system. If the Extension nutrition program relied on user fees to cover its costs, relatively few low income people would participate and the public would have to pay higher Medicare bills. This means that grants, contracts, gifts, and sponsorships are better means of funding programs with a high ratio of public value to private value. For more on public value in Extension see *Extension Economics Notes # 2012-2* and <http://blog.lib.umn.edu/kalam002/publicvalue/>

Works for Programs with Low Income Groups: User fees depend on the participants’ ability and willingness to pay for the program. Naturally, many low income families simply do not have the ability to pay for educational programs. In fact, they often are incurring major costs to participate by taking time off from jobs, travel, and/or day care. Hence, user fees are a poor option for programs with large portions of low income people. While scholarships could be given to those with low income, this sometimes discourages participation because of the stigma in asking for this. Hence, grants, contracts, gifts, or sponsorships provide better approaches for low income programs.

Feedback and Political Support

Feedback is needed to ensure high quality programs. Political support is needed to garner public funding, which is the major source of funds.

Peer Review and Feedback: Extension's comparative advantage over other outreach institutions is its close connection to research in the land grant colleges. The research feeds the Extension program and the feedback from Extension on emerging needs frequently inspires cutting-edge research. The integrated grants programs at the National Institute for Food and Agriculture require in-depth peer review, making it more likely that the project will deal with major emerging issues and have a strong research component and a strong program evaluation. Both enhance Extension programs' quality and impacts. Contracts are less likely to have blind-peer reviews than grants, although most are reviewed by professionals. The other cost recovery options seldom have high levels of peer review prior to implementation.

Participant Feedback: The long term impacts of a program depend on addressing the most urgent needs of participants in ways that help them make changes in their lives or businesses. To have widespread impacts, you need not only an effective program but must reach large numbers of people. Hence, participant feedback is critical to learning about their needs, gauging their satisfaction with the manner the program deals with these, and for promoting the program with future participants. On this criterion, user fees do the best, providing a quasi-market test of your program event. If you charge high fees and still have high attendance, this is a clear sign that you are addressing popular issues and doing it effectively. The event sponsorship model also provides some feedback but not quite as directly as the user fees.

Costs of Soliciting Political Support: Most Extension programs are funded both by public funds and by cost recovery funds. Occasionally Extension needs political support to protect the public funds. When Extension works directly with participants, soliciting political support is very difficult logistically. Furthermore, even participants who valued the program may find the costs of providing political support higher than the additional benefits, reducing their incentives to get involved. (McDowell, George R. *The Political Economy of Extension Program Design: Institutional Maintenance Issues in the Organization and Delivery of Extension Programs* *Am. J. Agr. Econ.* (1985) 67(4): 717-725.). The sponsorship option makes it easier to stay in contact with a smaller set of individuals and to build the social capital necessary to successfully solicit political support. There might be opportunities for building political support with grants and contracts but this varies widely.

Discuss Pros, Cons, and Modifications

Your program team can find the right cost recovery option by discussing their pros and cons for your specific program and events and then talking about modifications in the funding option to make it fit your event better. A key ground rule (the poker face rule) is that no one should advocate for one option over others until all the pros and cons are listed AND all modifications are suggested. Repeat the steps, if necessary. Often this helps your team find a unique solution that works well.

The best type of cost recovery will change as your program matures and as you have time to document costs; evaluate the program's effectiveness and measure people's willingness to pay.

For the views of extension directors on cost recovery options, see: "The Changing Portfolio of the CES," January 2006. <http://www.aplu.org/NetCommunity/Document.Doc?id=427>

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