GOVERNANCE COST CONSIDERATIONS

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Accounting & Reporting
Payroll Operations
Treasury Operations

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Associate Vice Chancellor Finance & Administration/Controller
Assumptions

- Costs/(savings) contained in the following slides are estimated based on the scale of a large university (e.g., > 18,000 student FTE and > 2000 employee FTE)

- Costs shown are incremental costs that would be borne by the seven campuses combined under the various governance structures considered

- Internal charges borne by campuses that help fund these shared services are not considered as they do not mitigate the cost increases when taking a combined view

- Time did not permit engaging an independent review and analysis for some of the more complex operational functions. For those areas, the estimated cost impacts are based on the professional judgment of staff
  - Tried to use a costing approach that focused on the additional staff time it would take to perform a function, recognizing that some level of these activities is currently taking place at the campus
  - Resulting estimates may be lower than what will actually be realized when incurring partial employee FTE increases; it is not always possible to add a partial FTE, particularly in specialized areas where technical expertise is critical
Accounting & Reporting

What we do …

- Prepare annual reports:
  - Financial statements, MD&A, and footnotes
  - SEFA (Schedule of Expenditures of Federal Awards)
  - IPEDS (Integrated Post-secondary Education Data System)
  - NCAA reports (PSU and WOU only)

- Coordinate financial and A-133 audit

- Monitor OUS accounting records

- Develop and maintain accounting policies and procedures

- Administer standards for accounting system (17,149 separate accounting entities or “funds”)

- Provide support and training for Banner FIS and Fixed Assets

- Prepare and negotiate F&A rate proposals for regional universities and OIT

- Prepare Unrelated Business Income Tax return

- Prepare financial data, analyses, and responses to ad-hoc requests

- Provide service center for Banner fixed assets administration

- Other
Accounting & Reporting

Who we are ...

- Director, Diana Barkelew, CPA
- 5 FTE
- Salary and OPE cost - $564,000
- S&S cost - $42,000
No unavoidable incremental costs were identified.

Depending on the resulting risk profile, may determine that additional monitoring is needed.
Accounting & Reporting
Scenario 2 – PSU and UO Separate Legal Entities

- Prepare annual reports:
  - Financial statements, MD&A, and footnotes
  - SEFA (Schedule of Expenditures of Federal Awards)
  - IPEDS
  - NCAA (PSU only)
- Coordinate financial and A-133 audit
- Monitor accounting records
- Develop and maintain accounting policy and procedure
- Administer standards for accounting system
- Provide support and training for Banner FIS and Fixed Assets
- Prepare UBIT return
- Each campus requires addition of
  - 1 FTE with expertise in financial statement preparation and reporting - $110k
  - .25 FTE financial statement supervision and review by experienced CPA/Controller - $35k
  - .25 FTE technical support - $25,000
  - Software consultant and support fees - $40k
- Assumes that experienced supervisor is already on staff; if not, costs would be higher
- Total incremental costs per campus, per year $210k
- Would allow cost reduction in OUS of .25 FTE - $25,000 per campus, per year
Audit costs under the following scenarios:

<table>
<thead>
<tr>
<th>Scenarios</th>
<th>Financial Statement Component</th>
<th>A-133 Component</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>$300,500</td>
<td>$47,000</td>
<td>$347,500</td>
</tr>
<tr>
<td>OUS (without UO)</td>
<td>$280,000</td>
<td>$45,000</td>
<td>$325,000</td>
</tr>
<tr>
<td>UO</td>
<td>$200,000</td>
<td>*</td>
<td>$200,000</td>
</tr>
<tr>
<td>Total (with UO separate)</td>
<td>$480,000</td>
<td>$45,000</td>
<td>$525,000</td>
</tr>
<tr>
<td>OUS (without UO &amp; PSU)</td>
<td>$260,000</td>
<td>$40,000</td>
<td>$300,000</td>
</tr>
<tr>
<td>UO</td>
<td>$200,000</td>
<td>*</td>
<td>$200,000</td>
</tr>
<tr>
<td>PSU</td>
<td>$180,000</td>
<td>*</td>
<td>$180,000</td>
</tr>
<tr>
<td>Total (with UO &amp; PSU separate)</td>
<td>$640,000</td>
<td>$40,000</td>
<td>$680,000</td>
</tr>
</tbody>
</table>

Cost differential with UO separate: $177,500 (51%)
Cost differential with UO and PSU separate: $332,500 (96%)

*Cost included in Financial Statement Component
Payroll Operations

What we do...

- Tax withholdings, deposits, and reporting
  - Federal, multi-state and local taxes
  - International students and related tax treaties
  - Mass transit tax
  - 45,372 W-2 and 748 1042S forms filed for 2011

- Other regulatory reporting
  - Worker’s compensation
  - Employment division reports
  - “New Hire” reporting to DOJ
  - Other (COBRA subsidies, surveys, union census files)
  - Over 200 prior year corrections and related filings

- Centralized payments for
  - 3 retirement plans
  - 2 tax deferred savings plans
  - Union dues/fair share
  - Union and PEBB benefit plans

- System responsibilities
  - Payroll system changes for regulatory compliance and benefit plan changes
  - Update compensation plans
  - Review, manage and test payroll system updates/patches
  - Investigate tax compliance issues
  - Coordination and testing with vendors to maintain and update reporting process
Payroll Operations
Who we are...

- Director, John Craven
- 5 FTE
- Salary and OPE cost $459,000
- S&S cost - $32,000
No unavoidable incremental costs were identified

Assuming deadlines, pay frequency, tax identification numbers, bargaining agreements, employee classification, pay and deduction codes, benefit plans would remain standardized for all campuses
Payroll Operations

Scenario 2 – PSU and UO Separate Legal Entities

- Tax withholdings, deposits, and reporting
  - Federal, multi-state and local taxes
  - International students and related tax treaties
  - Mass transit tax
- Other regulatory reporting
  - Worker’s compensation
  - Employment division reports
  - “New Hire” reporting to DOJ
  - Other (COBRA subsidies, surveys, union census files)
- Payments for
  - Retirement plans
  - Tax deferred savings plans
  - Union dues/fair share
  - Benefit plans
- Other responsibilities
  - Payroll system changes for regulatory compliance and benefit plan changes
  - Update compensation plans
  - Review, manage and test payroll system updates/patches
  - Investigate tax compliance issues
  - Coordination and testing with vendors to maintain and update reporting process
- Each campus requires an additional 2 FTE - $180k
- No commensurate cost reduction in CO as all current processes and payments would continue
Treasury Operations

What we do …

- **Debt Management**
  - Develop and monitor debt policy
  - Issue XI-F and XI-G debt (Total under management is $1.6 billion)
  - Provide support to DAS for other debt issuances (lottery, XI-Q) that affect campuses (Total other debt supported by staff $347 million)
  - Reconcile and monitor outside trust and escrow accounts that hold bond proceeds (37 accounts) and review and process capital expense reimbursements
  - Perform all debt accounting and related financial reporting for all campuses
  - Provide debt service analysis for campuses, DAS, LFO, SBHE, and other interested parties
  - Monitor proceeds and building use for compliance with IRS regulations, statutory rules, and other legal requirements

- **Investment Management**
  - Develop and monitor investment policy
  - Account for securities transactions and valuations (separate investments)
  - Monitor and report on investment performance
  - Allocate pooled investment earnings and posts to almost 7,000 funds
  - Security selection and investment accounting for OSTF and OITF is under OIC and State Treasurer’s purview

- **Banking Services**
  - Maintain relationships with primary banking services providers
  - Manage pooled cash balances to ensure adequate liquidity and maximize investment earnings
  - Monitor institution cash balances and alerts institutions as warranted
  - Monitor banking transactions for suspicious activity
  - Reconcile bank accounts for institutions that have opted to utilize our fee-for-service model
Treasury Operations

Who we are …

- Director, Karen Levear
- 5 FTE
- Salary and OPE cost $563,000
- S&S cost - $50,000
No unavoidable incremental costs were identified

Adding a revenue bond program under the current structure will increase both the cost of capital (over the general obligation XI-F(1) and XI-G bond programs) and the operating expenses necessary to support the program.

Adding separate revenue bond programs at PSU and UO, an option under the institutional board’s proposal, will compound that effect.

Due to the variety of options, and the interplay between centrally managed debt and liquidity and its impact on investments, we engaged PFM to provide you with estimates of the incremental operating costs and the cost of capital impact relating to campus revenue bond programs, as well as the impact on investment returns.
Treasury Operations
Scenario 2 – PSU and UO Separate Legal Entities

- Debt Management – Perform functions currently performed by CO
  - PFM will discuss the incremental operating costs and the potential cost of capital impacts

- Investment Management – Perform functions currently performed by CO and OST
  - May need to add more robust investment accounting resources, depending on choices of investments
  - Each campus requires an additional .5 FTE - $50,000
  - Investment consultant - $0 to $100,000, depending on ability to leverage foundation contractor
  - PFM will discuss the impacts on investment returns

- Banking Services – Perform functions currently performed by CO
  - Both PSU and UO perform much of this function at present. Any increased costs would likely be “on the margin.”

- No commensurate cost reduction in the CO as all current processes would continue
Conclusions

- The current structure of shared services keeps costs for administrative functions low.

- Having separate institutional boards (within one legal entity) does not add administrative costs in these areas:
  - Campus-based revenue bonds would increase the cost of capital for PSU and for the remaining system, and may or may not change the cost of capital for UO.

- If PSU and UO were split off into separate legal entities:
  - The incremental costs in the administrative functions identified above would be borne primarily by those universities.
  - Both PSU and UO would have a higher cost of capital.
  - The remaining universities in the System would have a higher cost of capital.
  - There would be one-time implementation costs.
  - For the remaining campuses, the costs of the these administrative functions would be higher on a per-student basis.
Questions