AGENDA

1) Foundation supplements for presidential compensation .................................................. 1
2) Tenets of Shared Services .................................................................................................. 5
In the recent past, the Board has agreed to supplement the compensation paid to university presidents from funds provided for that purpose by the foundations affiliated with those universities. The first use of such a supplement was in 2001 at Southern Oregon University where the SOU Foundation proposed to pay $50,000 of deferred compensation for President Zinser if she stayed for five years as SOU’s president. The SOU Foundation paid that amount in 2006, upon the completion of her tenure as president.

In 2003, Governor Ted Kulongoski froze the salaries of all state employees. This was done as part of budget restrictions occasioned by the dot-com bust and the resulting recession. The Board was recruiting a new president for Oregon State University at that time and, in order to attract its top candidate, the Chancellor turned to the OSU Foundation to provide a $90,000 salary supplement. The Board’s administrative rule dealing with foundations (OAR 580-046-0035) permits such supplementation from foundation sources for a president as long as it is approved by the Board and paid to the president “...in accordance with normal institution practice...”, which, practically, has meant through the regular OUS payroll system.

Subsequently, the foundations affiliated with the University of Oregon and Portland State University suggested that they would be willing also to provide salary supplements to the long-serving presidents of those universities in order to preserve rough equity in the salaries of the presidents of the three largest of the OUS universities. The salary for the UO president was supplemented with foundation funds in 2005-05 and that for the PSU president in 2005-06. By 2008-09, the supplements expanded from salaries to include also payments for deferred compensation for each of the three presidents. The Board’s Finance and Administration Committee considered whether to impose limits on the amount to be recognized from foundations but did not take action to do so.

Questions have been raised about the practice of using foundation funds to pay part of presidential compensation. In other states, there have been issues about who sets policies and directions for presidents when presidential compensation comes partly or even largely from foundation sources. In Oregon, it is clear legally that the president of a university is responsible to the OUS Board. However, some presidents have felt that foundation boards and their members have believed that the foundation board should have some real sway over the policies and directions of the university. Other presidents have seen no evidence of such a belief. But the perception of influence may be an important consideration and the payment of large portions of presidential compensation may create such a perception.
The Committee has now heard or will have heard from the presidents and foundation representatives for the three largest OUS universities. There is a diversity of opinion on this issue. One president has suggested that the matter not be dealt with this year because his university might become independent of the Board next year, rendering the issue moot. Obviously, that is an option that is available to the Committee.

However, in the interests of moving this matter to a possible conclusion in line with the work plan for the Governance and Policy Committee, three options are offered for consideration.

1. Continue the current practice of accepting foundation supplements, as proposed by the foundations, without any restrictions other than those imposed currently by OAR 580-46-0035(6) (payments to be approved by Board paid through OUS payroll). The advantages of this alternative are:
   a. Requires no change to current law, policy, or practice;
   b. Preserves flexibility for Board to acquire private resources to compensate presidents even when state salaries are restricted;
   c. Allows for use of private funds without arbitrary restrictions that would be imposed by a cap; and
   d. Shows students and faculty that significant amount of the pay for presidents need not come from tuition, state appropriations, or monies that might be used for faculty compensation.

The disadvantages of this approach deal mostly with the perception of who controls the university and its policies and directions (the governing board or the foundation board) and the possibility that multiple funding sources also make clarity and accountability murkier than might a single source.

2. Prohibit by rule the use of foundation supplements for presidential compensation. The main advantage is one of clarity of who is responsible for providing direction and policy for the university. Only one board, the governing board, is responsible for presidential compensation and oversight and all funds come from university sources. The disadvantages of this approach include possibly being bound by political restrictions on presidential compensation since all such compensation would come from university sources (principally tuition and state appropriations). This might make it difficult to attract and retain qualified presidents due to pay restrictions. (Before the presidential salary supplement for President Bernstine, the PSU president was the lowest paid president of a doctoral-granting university in the United States. So, this concern is not merely theoretical.) (This argument may have had more pertinence prior to the effective date of Senate Bill 242 since OUS no longer is a state agency and subject to state pay restrictions and freezes.)
3. Agree to accept foundation supplements for presidential compensation but amend the rule to put a cap on the dollar amount or percentage of total presidential compensation that may be accepted from foundation sources. The suggestion from one campus was that the limit be placed at 30 percent of total presidential compensation (to show that the governing board had clear control) and that the foundation funding come from undesignated funds so that there was no belief on the part of foundation members or donors that they could designate gifts to supplement presidential pay and, therefore, gain some level of influence over the policies and direction of the university. The advantage of this approach is that it permits non-university funds to be used for presidential compensation while dampening the appearance that such supplements muddy the accountability of the president to the governing board. However, no cap can eliminate that appearance entirely.

The use of foundation supplements served OUS well during the time that it was under state salary freezes, allowing the Board to hire and retain qualified presidents in a competitive national market. However, the passage of SB 242 suggests that such freezes no longer may have legal effects on OUS. The use of these supplements also has provided external resources to the universities to compensate presidents. However, it is difficult to argue that such resources would not have been available to the universities anyway. (The SOU payments for deferred compensation for President Zinser may be an exception to this in that special fundraising for what was termed a retention payment seems to have been conducted. Although the PSU supplement originally had some of the same flavor of special fundraising, that has not been the case in subsequent years.) Some OUS presidents have spoken of influences by foundation members that contradict the directions of the governing board. However, others have not mentioned such influences.

Generally, staff believes that clarity and accountability are important considerations. Hence, staff has a preference for having all presidential compensation come from university sources, as directed by the governing board. However, special circumstances may arise, as they did several years ago, that might suggest the desirability of accepting foundation assistance in a presidential compensation package.

**STAFF RECOMMENDATION TO THE COMMITTEE**

Therefore, staff recommends that the Committee adopt a policy statement that says that the usual policy of the Board is that all presidential compensation be paid from university funds except in circumstances that the Board believes warrant an exception (i.e., when required to effect the recruitment and retention of highly qualified presidents). In order to accommodate those circumstances in a way that does not create the appearance or reality of diluting the accountability of a president to a governing board, staff recommends further that OAR 580-46-0035(6) be amended in a fashion similar to the following:

“(6) Salaries, consulting fees, loans, perquisites or other benefits provided to or on behalf of an institution employee, other than a student employee, by a foundation shall be:
(a) Approved by the Board of Higher Education when paid to the president or other employee appointed directly by the Board of Higher Education, provided that no more than thirty percent of the total compensation of any president or other employee appointed directly by the Board of Higher Education may be provided by a foundation.
(b) Approved by the president in writing, and reported to the Chancellor in instances where subsection (a) of this section does not apply.
(c) Paid by the foundation to the institution, which in turn will make payments to the employee in accordance with normal institution practice, except where the Chancellor approves a different form of payment. All exceptions shall be reported to the Board of Higher Education annually by the Chancellor.”

(Committee action required.)
BACKGROUND
Shared services is a way of organizing functions to optimize the delivery of cost-effective, flexible and reliable services to all “customers.” The primary focus of shared services is on service excellence/quality, high performance, cost control, and continuous improvement. Typically, these services are overseen by a customer board or other advisory group to ensure that services remain relevant and focused on critical needs. The funding and resourcing of the service is shared and the providing department effectively becomes an internal service provider. The key is the idea of ‘sharing’ within an organization or group. The provider can be one of the institutions serving the other institutions/System office or the System office serving the institutions.

Attributes of areas that might be candidates for shared services include areas with: high costs compared to benchmarks, a transactional/administrative focus, a high potential for standardization, a high transaction volume, and comprised of simple and repeatable tasks. The benefits of shared services fall in four primary areas as follows:

- Economic – high productivity leads to lower costs, reduced systems/infrastructure needs, and leveraged investments.
- Strategic – customer focused, lower cost services delivered by fewer employees, achievement of process standardization, enabling new/re-organized entities.
- Quality – improved information for decision-making, better service to key stakeholders, reduced error rates, development of centers of expertise and innovation.
- Speed – reduced cycle times for authorizations, payments, sourcing, etc.

STAFF RECOMMENDATION TO THE COMMITTEE
Given the obvious benefits of shared services, staff recommends the Governance & Policy Committee of the Board of Higher Education endorse the following tenets of shared services:

1. That having OUS remain one legal entity is a very important consideration for shared services. Sharing services among multiple legal entities will be much more difficult, if not impossible, due to added overhead requirements including the need for discrete financial statements, added audits, and added reporting requirements for each entity; the likely loss of economies of scale in managing payroll, cash, investments, risk management needs, or benefit programs and other discrete legal requirements. Sharing information with discrete legal entities can lead to problems with FERPA rules and other restrictions, the need to attend to legal liabilities in the event of error or penalties, and other legal and practical issues. In some cases, Internal Revenue Code or other
regulations may preclude certain services from being shared if multiple legal entities are involved.

2. Shared services should be encouraged to the point that efficiencies are garnered, effectiveness or quality is improved. Thus, the primary measure of whether to share or not share a service should be its impact on costs and quality to the System as a collective.

3. That standardization of processes and functions is critical to cost-effective operations. Thus, we must not fragment control over our universities in any way that would compromise the standardization of information, processes, or policies as this is the key to sharing services and cost-effective operations.

4. If one institution proposes not to continue engaging in sharing a particular service within the System, it must first establish that: (1) the service can be performed at least as effectively and economically by the university, and (2) that doing so will not increase the costs or diminish the quality of the service for the other institutions.

(Committee action required.)