Public University Presidents’ Workgroup on Shared Services Report Summary

Presented by:

Bob Davies, EOU President

January 17, 2014
Report Recommendations

(a) Recommend appropriate entity to facilitate sharing of services among public universities listed in ORS352.002, after universities with governing boards are established

- Multi-party agreement with one or more universities performing administrative services for institutions wishing to participate voluntarily is most efficient and effective model short- and long-term.
- No new legal entity is needed.

(b) Recommend how shared services coordinating entity (described above) will be managed

- Personnel delivering shared services should be employees of a university or universities, and shared services operation should be managed by an executive director reporting to a shared services oversight committee comprised of institutional representatives who are appointed by presidents.
Preliminary Conclusions

- **Current Shared Services were grouped as follows:**
  - **Prime candidates for Shared Services:**
    - Employee benefits (mandatory)
    - Risk Management (mandatory)
    - Collective bargaining (mandatory)
    - Accounting and reporting
    - Fifth Site Computer operations
    - Payroll processing, and
    - Treasury operations (cash management, investment and debt financing).
  - **Not candidates due to Governance implications:**
    - Fiscal monitoring
    - Internal audit services
    - External audit services
    - Legal services, and
    - Governmental advocacy.
  - **Others to be determined:**
    - Student services, and
    - Academic services
### Shared Services, Host Institutions and Institutional Participants at Inception

<table>
<thead>
<tr>
<th>Shared Service Type</th>
<th>Host Institution</th>
<th>Institutional Participants at Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee benefits</td>
<td>UO</td>
<td>EOU, OIT, OSU, PSU, SOU, UO and WOU</td>
</tr>
<tr>
<td>Risk management</td>
<td>OSU</td>
<td>EOU, OIT, OSU, PSU, SOU, UO and WOU</td>
</tr>
<tr>
<td>Collective bargaining</td>
<td>OSU</td>
<td>EOU, OIT, OSU, PSU, SOU, UO and WOU</td>
</tr>
<tr>
<td>Financial accounting and reporting</td>
<td>OSU</td>
<td>EOU, OIT, OSU, SOU and WOU</td>
</tr>
<tr>
<td>Treasury operations and internal bank</td>
<td>OSU</td>
<td>EOU, OIT, OSU, PSU, SOU and WOU</td>
</tr>
<tr>
<td>Payroll services</td>
<td>OSU</td>
<td>EOU, OIT, OSU, PSU, SOU and WOU</td>
</tr>
<tr>
<td>Fifth Site Computer Operations</td>
<td>OSU</td>
<td>EOU, OIT, SOU and WOU</td>
</tr>
</tbody>
</table>
Report Recommendations

(c) **Determine financial impact that will be caused, cumulatively and individually, for each university that establishes a governing board and leaves the Oregon University System.**

**Shared Services – Sources and Uses by Campus:**

<table>
<thead>
<tr>
<th>Institution</th>
<th>Sources - Current Assessments and Budget</th>
<th>Shared Services - Estimated Costs</th>
<th>Other Estimated Costs to Self-Operate or Provide Governance*</th>
<th>Net Annual Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>EOU</td>
<td>$1,226,845</td>
<td>($1,463,420)</td>
<td>($248,300)</td>
<td>($484,875)</td>
</tr>
<tr>
<td>OIT</td>
<td>$958,761</td>
<td>($1,241,001)</td>
<td>($248,300)</td>
<td>($530,540)</td>
</tr>
<tr>
<td>OSU</td>
<td>$6,760,574</td>
<td>($5,573,981)</td>
<td>($2,300,963)</td>
<td>($1,114,370)</td>
</tr>
<tr>
<td>PSU</td>
<td>$3,339,569</td>
<td>($3,127,127)</td>
<td>($913,000)</td>
<td>($700,558)</td>
</tr>
<tr>
<td>SOU</td>
<td>$1,555,052</td>
<td>($1,826,392)</td>
<td>($248,300)</td>
<td>($519,641)</td>
</tr>
<tr>
<td>UO</td>
<td>$5,210,686</td>
<td>($4,095,524)</td>
<td>($1,650,000)</td>
<td>($534,838)</td>
</tr>
<tr>
<td>WOU</td>
<td>$1,354,086</td>
<td>($1,553,775)</td>
<td>($248,300)</td>
<td>($447,989)</td>
</tr>
</tbody>
</table>

* EOU, OIT, SOU and WOU assumed to be governed by OSBHE in this analysis. If independent, these costs would be higher.
Report Recommendations

(d) Recommend a mechanism to mitigate or eliminate negative financial impact caused by universities establishing governing boards and leaving the Oregon University System; or require universities establishing governing boards and leaving OUS to remain in each shared service. In determining this mechanism, the work group must consider the appropriateness of assessments or reductions of appropriations.

- Regarding addressing the ($1.94M) annual impact on universities without their own governing board, there are three options in order of preference:
  - Using funds from the $4.8 million currently budgeted for Chancellor’s Office operations (either in FY15 or starting in FY16); or
  - Reductions to the appropriations for the larger universities necessary to offset these impacts; or
  - Seeking added State General Fund support from the Legislature.
Report Recommendations

Regarding addressing the ($1.2M) annual impact on universities without their own governing boards, associated with unbundling PEBB composite rates after June 30, 2015, there are two options in order of preference:

- Adjust rates so each university pays its respective amount and redress impacts by seeking and obtaining additional State General Fund dollars and providing such additional resources to the technical and regional universities to cover their increased operating costs and replace the current subsidy; or

- Leave the composite rate as is, but reallocate existing state General Fund dollars to PSU, OSU and UO to redress this issue.
Report Recommendations

Regarding addressing the ($1.6M) annual impact associated with the pooled student building fee, there are two options in order of preference:

- Use the accumulated cash reserve to annually fund the bonds’ debt service shortfalls, and once the bonds are fully repaid, distribute any remaining reserve balance to the larger universities using an agreed-upon distribution algorithm; or

- Using an agreed upon calculation/projection methodology, hold only that portion of the reserve needed to fund the debt service shortfall for the technical and regional universities and distribute any excess balance to the larger universities using an agreed upon distribution algorithm.
Report Recommendations

- Other impacts are possible depending on the final governance structure for the technical and regional universities, the type and number of institutions which use shared services each year, and the funding provided for these activities. Estimates of impacts for these possibilities have been included in this report and its appendices.

- Note: SB 270 requires recommendations for mitigating impacts on universities that do not have their own governing boards. Therefore, if one or more of the technical or regional universities are granted a governing board, this discussion (and these estimated costs) would be different.
Identify services that should remain shared among public universities listed in ORS 352.002 after the establishment of institutional governing boards. In determining whether a service should remain shared, the work group must consider economies of scale achieved by sharing the service, the public benefit in sharing the service, and the positive and negative financial impacts on each public university if one or more universities with governing boards either stops or continues to participate in the service.

- The fundamental operating premise for shared services is using best practices to achieve economies of scale, resulting in value-added efficient services that save costs for participating universities.
- The institutions generally believe that all shared services should be offered on a voluntary basis. That said, all also agree that depending on the type of service being rendered, and the impact that the withdrawal of one university could have on the costs or revenues of the others, that sufficient notice of an intent to withdraw should be made to the others so they can plan accordingly.
- Thus, we do not recommend that any shared services be mandatory beyond June 30, 2015, except for the collective bargaining partnership set forth in SB 270.
Next Steps

Currently we are working on the following:

- Determining the need for statutory revisions to SB 270 in the February Session to make technical adjustments necessary for the efficient operation of the shared services enterprise (treasury issues);

- Contracting with a search firm to recruit an Executive Director of Shared Services with the goal of having that person in place by June 2014 (to be an Oregon State University employee);

- Drafting legal agreements needed to establish requisite contractual relationships among the parties (master agreements, host university agreements, service level agreements, trust and fiduciary agreements, etc.);

- Working with host campuses to transfer outside contracts and otherwise prepare them to accept responsibilities for these operations;

- Preparing to transition current Chancellor’s Office employees performing these services to the host universities and establishing a consistent and transparent budgeting and accounting structure to account for the costs and revenues.
Outstanding Issues?

- As time is of the essence to get all this work completed by July 1, 2014, hearing now any Legislative concerns or reservations regarding this report would be appreciated.

- As noted on previous slide, we are proceeding apace to get all these tasks accomplished to ensure a smooth transition on July 1, 2014.
Questions or comments?

Thank you for providing us with this opportunity.