Memorandum

Date: January 31, 2014

To: Director Paul Kelly Jr., Chair, Governance & Policy Committee, Oregon State Board of Higher Education (OSBHE)

From: Sheila M. Stearns, AGB Consultant and AGB Senior Fellow

Subject: Analysis of Transition Year Staffing for the OSBHE, Office of the Chancellor for FY2014-15

This memorandum responds to a request from Paul Kelly Jr., Chair of the Governance & Policy Committee, to analyze from an outside perspective and test the reasonableness of the proposed organizational structure of the Office of the Chancellor for the fiscal and academic year 2014-15. The components of the request are listed below in bold and addressed separately although they are inter-related. This analysis assumes three responsibilities of the Chancellor’s Office staff in the transition year:

1. Primarily serve as the system office for the four TRU institutions:
   Eastern Oregon University, Southern Oregon University, Western Oregon University, and Oregon Institute of Technology;
2. Attend to the myriad administrative and legal functions required for the orderly dissolution of a long-standing system of seven universities; and
3. Maintain sufficient staff infrastructure to continue to serve as a system office for the TRU institutions after 2015, if that is the decision reached by the Oregon State Board of Higher Education (OSBHE) and the Legislature.

The basic question is whether the proposed staff of 28 FTE and budget of $5,518,082 appear to be sufficient, without being excessive, for the above responsibilities in the upcoming transition year.

Analysis of “Proposed Chancellor’s Office Organizational Structure (Preliminary) FY 2014-15”
The Chancellor’s Office (CO) proposes an organizational structure with five divisions: executive office (six staff); internal audit (two); office of legal counsel (four); finance and administration (eight); and academic strategies (eight). The staff in these divisions comprise the 28 FTE proposed in the organizational structure for the transition year. To form observations about the adequacy of the proposed structure and funding, it is necessary first to summarize facts about staff, funding, and enrollment.
STAFF: Notably, the structure proposes the reduction of the Chancellor’s Office (CO) staff from 97 members to 28. By any measure this is or will be a significant and wrenching 71 percent reduction in staff of the Chancellor’s Office in one year. Or to look at it another way, after July 1, 2014, the CO would operate for the transition year with 29% of the staff it had previously. (Some of the 97 staff members, such as grant-funded personnel, have to a degree been supported by the CO but most of the funding for them and their programs has come from non-state sources or campus assessments.)

FUNDING: The two sources of revenue for the Chancellor’s Office are the state general fund and assessments to the campuses. Revenue to the office has declined in recent years. The transition-year proposal highlights the fact that in the current biennium $2.3 million of state general fund has already been taken out of the CO budget and transferred to the Higher Education Coordinating Commission (HECC). The funding for the Chancellor’s Office for the current year, 2013-14, is $8,596,740. The Chancellor’s Office proposes that funding of $5,518,082 would be required for 2014-15, the transition year, a 36% reduction from the previous year.

ENROLLMENT: According to a press release from the OUS communications office in November 2013, the head-count enrollment of the Oregon University System is 103,074, an all-time high by 1.7% over the previous high mark. The fall 2013 enrollment of the three research universities (Oregon State University, University of Oregon, and Portland State University) that will no longer be under the purview of the OSBHE or the Chancellor’s Office during the transition year is 82,175, or 80% of the total for the system. The total enrollment of the four TRU institutions in the fall of 2013 is 20,899, which is just 20% of the total for the system.

Functions currently performed by the system office that will continue
Some of the functions currently performed by the system office that will continue are obvious from the five proposed divisions, briefly summarized as: executive, legal, audit, administration and finance, and academic. Functionality in each of these areas needs to remain in the Chancellor’s Office to provide essential services to the TRU institutions. For example, the Finance & Administration office in the transition year would still develop and prioritize budget requests from the four TRU institutions, and administer fiscal reporting to the Board to maintain financial data consistency. Within academic strategies, the system office would still oversee, for the TRU institutions, student success initiatives, academic program planning, institutional research, and performance measurements toward Oregon’s 40-40-20 goals.

The Chancellor’s Office through the office of General Counsel assists the TRU universities with collective bargaining, grievances, and other complex legal and employment issues. The three research universities already have staff attorneys; the regional and technical universities generally share and definitely depend on a central system office for administrative and legal support.
Functions that would go to other entities, such as the four TRUs, the three research universities, HECC, Shared Services Enterprise, or others

The proposed organizational structure assumes that the following functions become “shared services for purchase” during the transition year, starting July 1, 2014, and therefore not primary functions of the Chancellor’s Office: risk management, internal bank, benefits, labor relations, payroll, and financial reporting. Many functions such as institutional research, planning, workforce initiatives, statewide partnerships, and capacity for academic program review and coordination will have to form within the HECC for it to accomplish its mission.

Additional functions that will transfer from the Chancellor’s Office to the Higher Education Coordinating Commission (HECC), the Shared Services Enterprise (SSE), the three largest universities and their new boards of trustees, the TRUs, or other entities include:

- day-to-day governance of OSU, UO, and PSU, including oversight of and partnership with their presidents;
- tuition setting;
- issuing revenue bonds;
- developing the budget request;
- administering and allocating funding as approved by the Legislature;
- developing and administering new funding models as requested by the HECC and the Legislature;
- academic policy coordination;
- contracting and purchasing;
- human resources;
- grant-funded pre-college programs such as GEAR-UP and CACG (College Access Challenge Grants); and
- Banner software coordination.

This list is not all-inclusive but covers various functions that appear to be transferring from the Chancellor’s Office to the universities or other offices, boards, or commissions. While the effective date is July 1, 2014, the transition year plan provides for support in most areas while these functions are transferred.

Comparison of the proposed staffing with that of university systems in Nebraska and Oklahoma

The proposed staffing of 28 personnel for a system of four universities with enrollment of approximately 21,000 is high, compared to the system offices for regional universities in Nebraska and Oklahoma. It is important to note, however, that the boards of trustees in those states have assigned different levels of duties and expectations to their system offices which account for different staffing levels and structure. In Nebraska, the Board of Trustees expects the system office to serve as a strong central administrative center for three regional colleges. The primary functions of the system office include all legal services, academic program review and coordination, comprehensive reports of financial and student data, collective bargaining.
with unions for all three universities, managing system-wide budgeting and accounting programs, conducting most governmental relations in the state capitol, coordinating deferred maintenance funding, and oversight of building and IT planning and construction. None of the regional campuses have full-time legal counsel on staff. Nebraska’s regional colleges enroll approximately 9,000 students; the system office budget is $1.5 million, and the number of staff is 10.

The Board of Trustees of the Regional University System of Oklahoma (RUSO) expects the college presidents and their staffs to carry most of their own administrative load, rather than rely on the system office. The six staff in the system office serve primarily the board itself with a minimum of coordinating responsibility for the six universities, and with an annual budget of only $900,000. The total enrollment of the six universities within RUSO is 42,000.

These two approaches to board governance are probably at opposite ends of the spectrum of regional system governance, from strong to weak, and from small to large.

Obviously, a staff of 28 to serve the Oregon State Board of Higher Education during the transition year, and to serve as the system office for four universities with a combined enrollment of 21,000, is high by comparison to the systems serving the regional universities in Nebraska and Oklahoma. It is important to remember that these comparisons are instructive but not exactly analogous because of the difference in functions, duties, and board expectations among the different states and for the transition year in particular.

**Additional staffing and resources required during the 2014-15 transition year**

None. Sufficient staff and resources appear to be built in to the proposed budget to facilitate the launching of the HECC, provide advice and assistance to the institutional boards at UO, OSU, and PSU, and for the staff work to transfer services to the SSE.

**Conclusion**

Any governing board needs a basic level of staff for board support, academic oversight and review, institutional research and IT support, legal services, fiscal and audit oversight, and executive and communications expertise. There is no question that a system office overseeing four universities instead of seven, with a drop of 80% of enrollment, is justified in reducing its staff by at least 71%. However, the OSBHE and the Chancellor’s Office continue to be responsible in the transition year for the governance of four of the seven institutions in the current system.

Some might argue that the drop in the system budget should be even greater given the level of complexity, budgets, and enrollment of the four technical and regional universities. We think the recommended levels may be reasonable, in light of these factors: 1.) The system office budget was already reduced by $2.3 million this fiscal year, to transfer funds to HECC. Many of the remaining functions cannot be reduced proportionately, such as support for the board. 2.) Our experience with system offices
overseeing a mix of universities is that smaller regional universities rely disproportionately (compared to larger universities with their significant staff infrastructure) on a system office for services such as those described in the divisions proposed by the Chancellor’s Office: executive, audit (internal), legal, finance and administration, and academic strategies. 3.) Among the remaining staff are highly skilled professionals who complement the staff of the TRUs. If the remaining staff of 28 is too many for the transition year, it is not so by much. Attrition is also anticipated over the course of the year; the year may start with 28 but end with fewer.

Arguably it is wise to preserve most or all of this core capacity of higher education governance for the Oregon State Board of Higher Education given the three responsibilities enumerated at the outset:

1. Providing for the governance and administration of the four TRU institutions for 2014-15;
2. Retaining sufficient experienced staff to dissolve and delegate in an orderly manner the legal connections of the previous system; and
3. Maintaining a sufficient core of experienced staff (in a year of inevitable staff anxiety and attrition) to continue as a system office in 2015-16 and beyond, if that is what the OSBHE and the Legislature decide going forward for the TRU institutions.

A recommendation for the OSBHE is to be sure that a reduction of the budget by just 36% from the previous year is sufficient for a system that has been reduced from seven institutions to four, recognizing than it has become 80% smaller by one significant metric (enrollment). Without micro-managing the Chancellor’s Office in fulfilling the duties already stated, the OSBHE should nevertheless encourage the Chancellor’s Office to find additional savings in the budget to perform its duties in 2014-15 in a comprehensive, competent, and cost-effective manner.