State Board of Higher Education Retreat

Issues and Ideas for Achieving Greater Flexibility in Operations

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Current situation

- Funding is inadequate for operations, capital and student aid
- Revenues are limited
- Many costs are constrained and/or inflating faster than CPI – employee health insurance, pension obligations, utilities, library acquisitions, building materials, and insurance (worker’s compensation, tort, property)
- Many institutions currently have recurring expenses in excess of recurring revenues and are drawing down reserves
- Deferred maintenance, facilities obsolescence, and use of self-liquidating debt for capital is increasing
- Faculty salaries are lagging peers
Proposed next steps

- Statutory or other changes will be needed to achieve greater flexibility in managing revenues, expenses, and other administrative affairs.

- Both internal and external constituents must be involved in the change for it to be successful.

- Time is of the essence as legislative concepts are due April 2006.

- We will want to get absolute agreement with the Governor and legislature that savings attained through these actions can be retained by OUS.
Concepts for consideration

Our most important and expensive asset is our personnel:

- Personnel costs represents 76% of OUS Education and General (E&G) Fund expenses

- Other Payroll Expense (OPE) divided by total salaries + wages = 45.2% and is increasing, projected to be 48% in 2005-06

- Peer OPE rates average 25-31% (see handout) with significant differences noted in employer contributions for retirement and healthcare
Concepts for consideration (cont.)

- Immediate changes are needed in the management of healthcare costs
- Retirement changes should be made
- Staff believe that savings generated from these initiatives could be redirected to increase faculty salaries to remain competitive with peers
- Staff recommends that these changes be limited to unclassified employees, due to:
  - Faculty salaries lagging peers by approximately 15%
  - To remain competitive in the national/international marketplace where faculty are recruited
A look at actual expenses...

Salary vs. OPE Calculations

2004-05 Education & General Actual Expenses:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unclassified Salaries</td>
<td>$305,865,435</td>
</tr>
<tr>
<td>Unclassified Pay</td>
<td>$28,424,483</td>
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<tr>
<td>Classified Salaries</td>
<td>$68,501,566</td>
</tr>
<tr>
<td>Classified Pay</td>
<td>$5,123,069</td>
</tr>
<tr>
<td>Student Pay</td>
<td>$14,647,567</td>
</tr>
<tr>
<td>Graduate Assistants/Clinical Fellows</td>
<td>$24,463,774</td>
</tr>
<tr>
<td>Benefit Compensation</td>
<td>$846,209</td>
</tr>
<tr>
<td>Other Payroll Expenses</td>
<td>$200,391,730</td>
</tr>
<tr>
<td><strong>Total Labor Expenses</strong></td>
<td><strong>$648,263,833</strong></td>
</tr>
<tr>
<td><strong>OPE/Salaries and Pay</strong></td>
<td><strong>45.02%</strong></td>
</tr>
</tbody>
</table>
Employee healthcare

- OUS currently pays $887 per month or $10,644/employee/year for health/dental insurance
- There are \( \sim 6,100 \) unclassified employees (E&G Fund only)
- OUS and Michigan State University are the only entities in the OUS peer group to pay 100% of healthcare costs
- 351.094 Provision of group insurance for employees:

  "Notwithstanding any other provision of law, the Oregon University System shall provide group insurance to its employees through the Public Employees’ Benefit Board, but may elect, at the discretion of the State Board of Higher Education, to provide alternative benefit plans to its employees, should the same level of benefits be available at a lower cost than through the Public Employees’ Benefit Board.”
Employee healthcare (cont.)

- With greater control over health care costs staff estimate that a 30% savings (~$20 million/year) could be obtained

  - Due to our employee group being less expensive to insure
  - By introducing an employee co-pay for some or all employee groups
  - By managing plan design
  - By offering incentives for employee selection of lower cost options
Employee retirement

Rates for retirement have been growing significantly due to:

- Commitments in defined benefit programs
- Investment performance
- Increases in life expectancy

Nationally, many entities are switching to defined contribution programs due to cost concerns
Employee Retirement (cont.)

- PERS Tier I and II employees currently receive an employer contribution of 22%.
- PERS OPSRP currently receive an employer contribution of 14%.
- Peers pay an average of 9% contribution to defined contribution retirement programs, with allowances for employees to contribute up to 5% more.
- Optional Retirement Program (ORP) rates are currently indexed to PERS rates, thus Tier I/II receive 22% and 14% contributions, respectively, to their defined contribution programs.
PEBB changes to consider

Employee Healthcare

- Work with PEBB to create a separate program for OUS to gain greater control over healthcare program plan design
- May wish to focus on unclassified employees
- This initiative could be used to garner funding for much needed faculty salary increases
- PEBB has agreed to meet with OUS to discuss these concerns
PERS changes to consider

- Consider statutory changes to offer employees a new defined contribution option not coupled with PERS
- Contribution amounts to be determined by OUS
- Hire at market salaries and offer defined contribution plan comparable to peers
Additional suggested changes in retirement plans

Consider decoupling the ORP rate from the PERS rate because:

- Defined benefit (PERS) and defined contribution plans are fundamentally different types of plans
- Ongoing material changes in PERS funding strategies create unintended rate consequences for ORP
Interest/Investment earnings

Currently only cash balances specified by statute earn income for OUS (gifts, private grants, student activity funds, intellectual property income, auxiliary capital reserves, sinking funds, bond building funds, and loan funds)

The balance of interest earnings on tuition, resource fees, and other income accrue to the state’s General Fund

Staff estimates that retaining these earnings would be worth approximately $5 million per year to OUS and would increase as incentives would stimulate better cash management
Interest/Investment earnings

- Need specific statutory authority to retain interest/investment earnings on all funds
- May wish to exclude appropriations funding from this concept
State assessments

- OUS currently pays $10.1 million per year in assessments to the State.
- Some of this pays for insurance programs, audits, and other needed services (e.g., banking and bond sale administration).
- Other assessments are levied for centralized governmental services.
- Market value of insurance, audits, banking and bond services is estimated at $5 million.
Assessments (cont.)

Multiple statutes will be impacted by this proposal:

- **Audits**: empower OUS to purchase audit services directly
- **Risk management**: empower OUS to purchase commercial insurance directly
- **Other governmental charges**: exempt OUS from assessment unless the assessment of OUS is expressly authorized by statute
Legal Services

- Need specific OUS authority to hire attorneys and to represent OUS and its institutions

- Need broader or complete delegation for “legal sufficiency” reviews
Other ideas

- Obtaining biennial funding for faculty step increases: currently working with DAS

- Taxing authority: explore possibility of granting OUS authority to levy taxes for operating or capital needs
Other ideas (cont.)

- **Expenditure limitations**: consider removing from expenditure limitation tuition and other funds that are currently limited.

- **Telecommunications and technology**: consider removing OUS from DAS oversight.

- **Capital budget**: consider removing projects funded with other funds from expenditure control/limitation and leave specific project approval to OUS.

- **Capital financing**: work with Treasury and Bond Counsel to enable use of variable rate, synthetic fixed rate debt and other issues like revenue bonding authority, etc.
Summary

OUS will need specific legislative authorization or other changes to achieve greater flexibility in managing revenues, expenses, and other administrative affairs.

We will want to get absolute agreement with the Governor and legislature that savings attained through these actions can be retained by OUS.

Legislative concepts are due April 2006, thus time is of the essence.
Questions or comments?