



Oregon  
University  
System

## SHARED SERVICES FOR OREGON EDUCATION

April 2013





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## BACKGROUND AND FRAMEWORK FOR AN OREGON EDUCATION SHARED SERVICES ENTERPRISE

**Prepared for the Governance and Policy Committee of the Oregon State Board of Higher Education**

March 31, 2013

Universities can and do share services with one another and with other education organizations in order to improve service, save money, mitigate risk, reduce tuition costs for students, redirect money from administration to student support and instruction, seize opportunities offered by expensive new technology, and ensure consistency of practice and information. In Oregon, the primary motivator for sharing services should be to help enable the state to achieve its 40-40-20 goals by reducing costs, improving service, and providing needed consistency. In 2013, several states (including Georgia (as part of its campus merger effort), Minnesota, New Hampshire, New York, Virginia and Wisconsin) are enhancing the sharing of services among their universities or community colleges in order to achieve these benefits. With the advent of the Oregon Education Investment Board, Oregon has the opportunity to extend these benefits to other education entities beyond its public universities. Currently, many services are shared among the universities under the auspices of the Oregon State Board of Higher Education and its Chancellor's Office. Possible governance changes may affect the continuation of those services. This paper identifies currently shared services and services that are often shared in other states so that sharing opportunities are not overlooked. It then provides the principles and legal basis upon which an Oregon Education Shared Services Enterprise could be established in 2013 and points to the steps that could take place during a brief transition period.



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# SHARED SERVICES

March 31, 2013

## Section 1. Introduction

Universities arguably began as shared services enterprises. In medieval Europe, individual scholars (often former monks) had collected students for tutoring. Ultimately, they banded together in communities and, later, designated others to provide services for them (charging fees, keeping records, setting the times and places for classes).

In recent times, universities and other organizations have shared services among themselves for three main reasons: they were forced to do so by law; they chose to do so to save money; they found it efficient to do so in order to meet external requirements. This latter reason may have led to voluntary associations (as with the consortium of independent Pennsylvania colleges that share a number of administrative and facilities services), semi-voluntary associations (such as accreditation associations), or mandatory participation (through state systems or by virtue of state legal requirements).

Generally, though, sharing is motivated for whoever decides services will be shared, by three major factors: financial matters (reducing cost or maximizing income), quality improvement (or sometimes even the ability to offer a service at all or to offer it in a contemporary way), and consistency needs (common data definitions and reporting requirements, as well as state or corporation mandated requirements to do things in a common way). Cost savings, quality improvement, and consistency are the three powerful forces behind shared services. Cost savings often are achieved through economies of scale, quality improvements by specialized expertise or technological innovation, and consistency through required data definitions, required processes, uniform schedules, common reporting formats, and required systems. In all cases, the choices of individuals within universities are constrained by having to share—whether within departments, within colleges, within the university, with other universities, or with state agencies.

Efficiency for the sake of efficiency rarely is popular among those whose choices are limited by shared services. There is a natural tendency by each person and each organization to believe that s/he or it can do anything and everything better than can anyone else because of the belief that the unique knowledge and commitment that the person or organization has is what can best fulfill the mission of the organization. This manifests itself in universities in ways as big as what the accounting system should be and as detailed as who should schedule individual classrooms between the hours of nine and ten a.m. Faculty culture, born of a guild system, prizes individual authority and enterprise and the universities, institutions developed to support

and mirror faculty and their culture, are possibly among the most resistant institutions in western society to being required to do things in a common manner.

However, the rise of public colleges and universities in the 19<sup>th</sup> and 20<sup>th</sup> centuries in both the United States and Europe saw the introduction of the public interest into the calculus of the communities of scholars that comprised colleges and universities. By the latter quarter of the 20<sup>th</sup> century in the United States, the public interest had expanded from the control of curriculum, administrative processes, facilities practices, and employee pay that characterized earlier eras to a focus on affordability for students. States began to shift away from direct control of university operations in which the universities were agencies of the state and followed the personnel, procurement and other practices of the state to holding universities to account for the tuition they charged students. The reasoning went that greater operational autonomy should bring greater accountability for tuition control. (The current vogue for “outcomes” may have started as a view that universities should hold down the prices they charged students. In fact, President Obama’s recent statements reinforce this aspect of accountability.)

The arguments for shared services are fourfold: to hold down costs, to improve service, to mitigate risk, and to ensure consistency. Almost all the efforts now in progress across the United States focus on one or more of these dimensions. But, in the public mind, holding down costs really means tuition control. Much of the discussion about shared services, then, must relate to how to achieve cost savings that allow universities to keep tuition affordable for students. This is especially true in states like Oregon where family income lags the national average and state investment in both university support and financial aid is substantially less than the levels in most other states.

Service improvement also is of moment. In fact, in some other states, this has become the primary motivation for sharing services, especially where smaller universities are concerned and where the alternative may be for a service not to be available in any meaningful way at all. Risk mitigation, due to expertise and consistency of procedures also cannot be overlooked.

Consistency may take on a special importance in Oregon. This state has an ambitious PK-20 agenda that demands the interlacing of educational organizations to achieve state goals. That interlacing requires a significant level of consistency in policy, data, and practice. While antithetical to the level of institutional autonomy naturally sought by universities, it may be a price to be paid for being public entities that receive state funding and have received state funding historically—for operations, for land and buildings, and for the financial support that permits students to attend. (Interestingly, an argument can be made that governments should exercise even more influence over universities due to the aid that allows students to attend than could be exercised when states provided greater levels of support to universities. This is especially true for the federal government and would seem to be the reason that federal efforts to put pressure on tuition increases and to hold universities accountable for greater levels of student achievement have some legitimacy and are gaining traction.)

The pillars of cost savings, service improvement, risk mitigation, and consistency have emerged nationally as the reasons for universities to share services. They are the underpinnings of efforts as ambitious as the “system-ness” work of the State University of New York, the common on-line efforts and shared library resources of the University of California, and the emerging shared services efforts of the University System of New Hampshire. Sharing is becoming much more common in American public higher education, motivated by financial, service improvement, risk mitigation, and consistency factors.

Probably the principal motivator for Oregon to share services is to help the state achieve its ambitious 40-40-20 education attainment goal. To do so, the state must be able to make a university education affordable for Oregon students in a state where average family income lags the national norm. To do so, the state must ensure that its education is of high quality so that graduates can meet international standards and succeed in a complex and competitive world. To do so, the state must be able to make certain that its investments and its public institutions are working in tandem to achieve its public policy goals. The first demands low cost, the second demands high quality, and the third demands consistency. All three would be enhanced and the success of the state in achieving its ambitious goals improved if services were shared. Devoting more resources to those aspects of universities that pertain most directly to student success—instruction and student services—demands that universities be efficient and seek the lowest cost and highest quality means of delivering both direct and support services.

And the argument that sharing services can free up resources to provide more money for direct instruction and improved student services (both critical for the greater student success required if the state is to achieve 40-40-20) should not be overlooked, especially as it pertains to the ability of universities to invest more in their intellectual capital (faculty).

## **Section 2. Principles of Shared Services**

In addition to reducing costs, maximizing income, improving quality, mitigating risk, or ensuring consistency, what are the principles that might underlie shared services and any entity charged with providing them?

Obviously, there are elements of efficiencies that would guide any such enterprise. But, to be effective, a shared services enterprise also must be motivated by three things: quality service to its customers, minimizing costs to its ultimate rate payers (the students), and making sure that it provides the consistency needed to assure public trust and to advance public goals.

This is a delicate balance because customers will argue persuasively that their needs and individual wants are paramount (sometimes even to the detriment of their own universities). Public sentiment will always be on the side of low prices for students and, hence, the lowest possible cost for services. (The old saw of “one dollar spent on administration is two dollars too much” comes to mind.) And public leaders will demand the consistency of information, practice, and policy that advances an overall education achievement agenda. Choosing any one

of these factors as pre-eminent will provide the overall motivation of the enterprise. But, even if the overall motivation were one of customer service (which, arguably, it should be), the shared services enterprise cannot ignore the cost control and consistency goals of the public and the state. This will require that the motivations of customers for customized services may have to give way to more standardization than they might wish—always congruent, though, with meeting real customer needs. The governance of the Shared Services Enterprise must account for real differences in customer needs and desires as well as the need to save money and provide consistency.

With these concepts in mind, the Committee on Governance and Policy of the Oregon State Board of Higher Education on March 15, 2013, agreed to propose to the full Board that it adopt the following principles to guide future efforts to offer shared services to public universities and other educational entities in Oregon. The State Board of Higher Education will consider these principles at its meeting on April 5, 2013.

- a. Standardization of information, processes, and functions is critical to cost-effective operations and to providing the lowest cost for a service at any specified quality level.
- b. The Shared Services Enterprise should implement best practices in each service area and focus on lowest cost for the quality of service desired. Dimensions of quality include timeliness and ease of accessing services.
- c. The Shared Services Enterprise will be overseen by a board composed of the presidents of its public university members or their designees plus two or three public members appointed by the governor and confirmed by the state senate.
- d. Each of its major service areas will be advised by groups of its members and the Shared Services Enterprise should enter into service level agreements with customers that specify levels of quality and cost.
- e. Some services may be mandatory for all members, but only to the extent necessary to satisfy legal requirements.
- f. An institution that proposes not to continue using a service that was shared prior to the establishment of the Shared Services Enterprise, or a service that was provided thereafter through the Shared Services Enterprise, must provide the Shared Services Enterprise and each of its member universities with a reasonable and adequate advance written notice of withdrawal, such notice being of sufficient length for the Shared Services Enterprise and its members to assess the impact of such a withdrawal and make appropriate adjustments to operations, rates and practices to permit the enterprise and its members to continue effective operations.
- g. The Shared Services Enterprise is considered to be an ongoing entity and it and its participants must take a long view of its operations so that it can make appropriate investments in technology, systems, and other long-lived assets or practices in order to provide high quality, timely, and cost effective services. Such investments may affect how long each university must participate in any service in which it shares.



- h. Inclusion of a service with the Shared Services Enterprise does not determine who will provide that service.
- i. In addition to the services it offers or facilitates, the Shared Services Enterprise may provide a convening function to allow discussions about topics of mutual interest to its members and the sharing of best practices in matters not part of the Shared Services Enterprise's suite of services.
- j. The Board of the Shared Services Enterprise will meet at least twice each year in order to plan for the enterprise, assess the quality and effectiveness of its services, explore new opportunities for sharing, evaluate senior staff, receive and adopt financial reports and budgets, receive and discuss audit reports, and conduct such other business as may be necessary or desirable.
- k. The Shared Services Enterprise will not be a state agency.
- l. The existence of a Shared Services Enterprise shall not impinge on the ability of any university to offer services to other universities on a shared basis.

In addition, the Committee will continue to try to develop guiding principles in several other topic areas. These include (but may not be limited to) whether the Enterprise will be able to offer services in areas not currently shared and in ways that are not now done; how the Enterprise will pay for its operations and its capital investment needs and maintain appropriate working capital; whether universities opting out of a service that is shared today will have to pay remaining participants some or all of the increased costs they will bear due to the lower volume caused by the exit of those universities; whether universities opting out of a service that is shared today would have to pay any penalties third party vendors assess to the Enterprise due to the lower volume caused by the exit of those universities; and whether the overriding purpose of the Enterprise is to minimize cost and maximize income for the total of all its members or for each member individually.

The Committee hopes to conclude its work regarding guiding principles at its April 16 meeting. However, because this paper must be completed prior to April 1, the following suggestions are made with respect to those areas about which the Committee has not yet reached consensus. These suggestions will be presented to the Committee for its consideration. Whatever version of these additional principles the Committee adopts and, presumably, recommends for approval by the State Board of Higher Education, will be incorporated into this paper at a later time. If that requires changes in the text of subsequent sections, those, too, will be made then.

- a. Except where required by law, the sole determinant of whether to share a service will be the decision of an individual university to do so.
- b. The primary motivator of culture and behavior for a Shared Services Enterprise will be customer service.
- c. The Shared Services Enterprise will be most effective as part of a single legal entity that includes all its university members. The single legal entity shall not infringe on the

operational and policy autonomy of its members except in accordance with law, as determined by the governing boards or boards of the universities, or by consent of the members, as determined by the Board of the Shared Services Enterprise.

- d. The Shared Services Enterprise should be a governmental entity rather than a for profit or not for profit corporation.
- e. The Shared Services Enterprise will be deemed a state body for purposes of tort claims.
- f. If a university elects to stop using a service provided under the auspices of the Shared Services Enterprise it shall, in addition to providing adequate notice to the Shared Services Enterprise and its members, pay all costs it incurs in providing such service itself and make the Shared Services Enterprise whole for all penalties and charges the Shared Services Enterprise must pay to third party vendors due to the exit of that university from that service.
- g. Members of the Board of the Shared Services Enterprise who represent universities that have chosen not to participate in a given shared service shall not participate in board decisions regarding that service.
- h. Services not currently provided by or on behalf of the Oregon University System in a shared manner may be offered by the Shared Services Enterprise to member universities and others on an opt-in basis.
- i. The Shared Services Enterprise will be supported for its capital and operating financial needs through a base appropriation from state funds plus rates charged to customers of its services.
- j. The Shared Services Enterprise shall have the authority to borrow in its own name and to issue debt in the name of the State of Oregon, under authority of Article XI of the Oregon constitution, if so authorized by appropriate state authority. For purposes of this principle, the Shared Services Enterprise will be considered a part of or the legal successor to the Oregon University System.
- k. The Board of the Shared Services Enterprise may charge customers for its services. Such charges shall be adequate and equitable and take into account immediate and long term needs and the necessity for appropriate reserves and working capital. Charges may be adjusted below standard rates for members who choose to continue with services through the Shared Services Enterprise when they have demonstrably less expensive alternatives, as long as the total amount expended for such services is lower throughout the entire Shared Services Enterprise than it would be if the members were to exit from those services.
- l. The Shared Services Enterprise will review its services and rates each year and report to its Board concerning the quality and price competitiveness of its services.

The foregoing principles, both those already adopted by the State Board of Higher Education's Committee on Governance and Policy and those that are suggested, underpin much of the discussion in subsequent sections of this paper.

### Section 3. Current Services in OUS

The Oregon University System, since its inception in 1932, has provided a wide variety of services to its universities as well as to the Oregon State Board of Higher Education. The nature of these services, how they have been provided, and who provided them has evolved over time. In recent decades, technological advances and prevailing management philosophies have caused many services to be decentralized to the universities. Others are provided by one university on behalf of other universities while still others are provided by the Chancellor's Office.

Most transaction processing has been decentralized to individual campuses in actions taken by the State Board at various times since the early 1990s. Some processing has been maintained at one or more central sites while other processing is conducted in accordance with prescriptions from the Chancellor's Office. There are literally dozens of specialized services that are provided to the universities within OUS by an entity other than the campus itself. Exhibit 1 provides a listing of many of these services and also notes those non-governance functions of the chancellor's office that might be transferred to a proposed State Department of Postsecondary Education.

Most services that are not suggested for possible transfer to the Department of Postsecondary Education fall into two main categories: services related to students and academic programs and services related to support and administration. Some of the services are in the nature of aggregation of campus activities, transactions, and data. Others are in the nature of transaction processing. Still others are functions related to ensuring consistency. Most are performed by the Chancellor's Office but several are provided by one university on behalf of the entire System or for at least one other university.

Those services provided by one university to one or more of the other campuses are, most notably, the Fifth Site (the information technology processing by Oregon State University of the financial information system on behalf of the four smaller campuses and the System Office, including the "aggregation instance" that sums up information for all seven OUS universities); the NERO (Network for Research and Education in Oregon) internet network operated by the University of Oregon for universities, school districts, and selected other entities; Systemwide telecommunications (telephone, video, etc.) operated by Oregon State University; the motor pool in Eugene shared between the University of Oregon and Oregon State University; the ORBIS Cascade Alliance, a not-for-profit library system that provides services for several campuses; the Southwest Oregon University Center operated by Eastern Oregon University for several participating universities; purchasing transactions handled by Portland State University on behalf of Southern Oregon University; and an admissions linkage to Southern Oregon University by the University of Oregon. In the case of the Fifth Site, the NERO network, telecommunications at OSU, and the Southwest Oregon University Center, part of the cost of operations is paid through appropriated money distributed by the Chancellor's Office directly or through changes that were made in formulas for funding that once flowed to the Chancellor's Office.

The preponderance of currently shared services is provided by the Chancellor's Office. These fall into several categories. Categories include student support, academic programs support, budget activities, financial oversight, financial services, data collection and analysis, legal services, risk management, labor relations, audit, advocacy, purchasing and contracting, and the administration of employee benefits. (Support for the State Board of Higher Education is not considered a shared service in this paper since it does not provide support to the universities. Board support is a required element of the governance of any public entity and must be considered in the establishment of a Shared Services Enterprise.) A more comprehensive listing of these services is attached as Exhibit 1, which also suggests whether a service might continue to be one that could be offered within a Shared Services Enterprise, might be transferred to the proposed Oregon Department of Postsecondary Education, could be expanded within a Shared Services Enterprise, or should be investigated further before decisions are made about where it most appropriately might be performed.

The Oregon State Board of Higher Education and the State should consider carefully each of the services listed or depicted in this section (including those provided by one university to others) so that smooth operations can continue and important support services are not threatened or interrupted.

The following subsections describe services currently provided by the Chancellor's Office.

a. Student Support Activities

Student support activities range from the preparation of the Viewbook used in Oregon student recruiting by OUS universities, to arranging coordinated tours of Oregon high schools for admissions personnel, to developing and presenting for approval by the State Board of Higher Education of admissions standards for the universities, with an eye toward linkages to high school graduation requirements to ensure that all qualified Oregon high school graduates have opportunity for university education at one or more of the OUS universities, to ensuring consistent application of residency standards in determining who qualifies for in-state tuition.

Other services include interaction with Oregon's nine recognized tribes, with veterans' agencies and organizations, and with other government and private entities with an interest in specific categories of students or potential students. These organizations expect or (in the case of governmental entities) require consistency among the universities. The development of financial aid policies and advising protocols for financial aid and debt counseling are among the other functions that derive largely either from Board policy or a convening authority. The Chancellor's Office also tracks and reports to universities data about new student applications and admissions on a scheduled basis, comparing the data across various categories of potential students and over time in order to give both System and campus leaders an indication of possible future enrollment and the effectiveness of outreach efforts to Oregonians, rural

students, students of color, students from other states and nations, transfer students, etc. Staff in the Chancellor's Office also coordinates campus efforts to set goals and provides planning resources to assist in developing campus plans to meet the state's 40-40-20 education attainment goals. Further, the Chancellor's Office facilitates the staff fee benefit policies under which employees of OUS and certain of their dependents can enroll in courses at their own or other OUS universities under specified conditions at reduced rates.

Another category of student support functions relates to common advising and scheduling systems and automated transcript systems. These systems (ATLAS/OSTX and IDTS) are constantly evolving and are used by most OUS universities and many Oregon community colleges. They also connect with systems operated by the Oregon Student Access Commission.

The Chancellor's Office also offers a range of international programs (study abroad, student and faculty exchanges, etc.) that are used by students from most of the universities. This has particular value for smaller campuses who may not have the infrastructure and contacts to navigate the welter of regulations and risks associated with these endeavors and who may not have the contacts in the many countries with which students and faculty wish to connect in this global society.

Another set of services deals with the pre-college efforts of the GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs), CACG (College Access Challenge Grant), and ETIC (Engineering Technology Industry Council) programs. GEAR UP, funded through federal and foundation grants, works with at-risk youth in selected middle and high schools, seeking to prepare them for success in college. CACG, also federally funded, includes partnerships with community organizations and other education entities. ETIC's focus is on STEM education and in trying to encourage K-12 school students to involve themselves in engineering, mathematics, and science through such programs as a pre-college outreach program and grant-funded programs centered around robotics. (These activities are in addition to ETIC's primary role of building capacity at universities to increase both engineering and computer science degrees and research in those fields. The linkage to industry through the ETIC council itself is the vehicle for working with universities to advance these goals.)

A final area of student support activities and one that may not be a shared service but a function that might more appropriately be performed within the proposed Department of Postsecondary Education relates to transfer connections with community colleges, common approaches to coursework embodied in the Associates of Arts-Oregon Transfer degree (AAOT) and the Oregon Transfer Module (OTM), acceptance for credit of high school advanced placement and international baccalaureate work, acceptance of certain high school courses for college credit, and various other efforts that are aimed at aligning the efforts of universities, community colleges, and high schools to advance student success. The work of the Joint Boards Articulation Commission (JBAC) staffed

both by the Chancellor's Office and the Commissioner's Office of the Department of Community Colleges and Work Force Development, also would be considered in this category.

b. Academic Programs Support

The Chancellor's Office currently provides a variety of academic program support and academic policy functions on behalf of the Board and of the universities. Many of these are carried out collaboratively through the Provosts' Council or the Board's Academic Strategies Committee but others are ministerial in nature.

Serving as the certification officer for students coming to Oregon from or going from Oregon to another Western state under the auspices of the Western Intercollegiate Consortium for Higher Education (WICHE) and its Western Undergraduate Exchange (WUE) is one such ministerial function. The approval of university missions and degree programs is a Board function that is supported by the staff of the Chancellor's Office, who also initiate discussions with business and industry representatives to help ensure that OUS universities have a collection of programs throughout Oregon to meet employer demands. This also involves working with school districts and the Teachers' Standards and Practices Commission to identify the changes and improvements in teacher preparation programs that are needed to help fulfill the needs of Oregon employers and Oregon students. These functions might be transferred to the proposed Department of Postsecondary Education but the mechanisms of collaboration that are facilitated among the universities must somehow be maintained.

As noted in an earlier section, the ETIC and its staff are one means to achieve state goals for degree attainment and increased research. This is not so much a shared service as a collaborative goal setting and resource allocation mechanism that involves industry advisors and faculty and administrators from all seven universities, facilitated by Chancellor's Office staff.

Over the past several years, the Chancellor's Office has taken on new functions in the academic affairs arena. These include responsibilities for facilitating innovations. Much of this work has been funded by external grants and all of it has involved deep collaboration among faculty and administrators at all seven universities, often with counterparts from Oregon community colleges and K-12 school districts. Oregon has been a national leader in learning outcomes assessment, alignment of the K-12 common core state standards with placement in college level courses, determining the proficiencies that should be demonstrated by those earning degrees and how those proficiencies should be measured, conceiving of how to assess and give credit for prior learning and knowledge gained from massively open on-line courses, implementing reverse transfer (where university students can earn associates degrees once they have completed the work at universities that would have qualified them for such degrees had they been enrolled at community colleges), and undertaking a wide variety of other

collaborative and faculty-based initiatives. The fact that the Chancellor's Office is within the university system and not a state agency probably has had a great deal to do with the ability of the office to engage provosts and faculty and earn external funding. OUS staff often have been faculty or senior administrators at universities in Oregon and elsewhere and often continue to teach or hold tenure at OUS universities. This has proven to be an important factor when engaging university faculty who must implement new ideas and programs. Chancellor's Office staff understand, unlike most state agency personnel, how universities work and recognize the important role of shared governance in success because they themselves come from universities.

Further, Chancellor's Office staff keeps an eye on national higher education regulations, issues, and trends and has been nimble enough to secure leading roles in national discussions on academic innovation and receive external funding for Oregon's efforts to try a number of new approaches.

Finally, interest has been expressed by some faculty in developing joint degree programs in which faculty at several OUS universities all participate in offering coursework that is bundled by one university into a degree. The Chancellor's Office is facilitating those discussions as well as efforts through WICHE's ICE program to share courses across state lines.

c. Budget Activities

Even though the enactment of Senate Bill 242 relieved OUS of many of the most onerous aspects of the State of Oregon's budgeting system, considerable work still is done to meet state (mostly Department of Administrative Services and Legislative Fiscal Office) requirements. The compilation of OUS appropriation requests and, ultimately, actual funding appropriations, is detailed and time-consuming work carried out in accordance with arcane rules, using prescribed and complex formats, and bound by numerous immutable deadlines. The tracking of the budget and reporting to DAS and LFO, while noticeably less time consuming than when OUS was subject to legislatively adopted expenditure limitations for other funds (e.g., tuition and fees), is still done for state-appropriated funds and, of course, for debt issued by the state on behalf of OUS and its universities (certificates of participation, and general obligation bonds).

The Chancellor's Office budget office also coordinates and prepares the fiscal impact statements for legislative proposals and provides consistent information to the DAS and the LFO concerning the costs of proposed legislation. The office also coordinates the OUS tuition-setting process for all seven universities, in part to ensure consistent application and interpretation of legislatively-adopted tuition guidelines.

The work surrounding the capital construction budget, while less constrained by DAS/LFO prescriptions, cannot be ignored either. And, in the case of the capital budget,

the priorities assigned to different projects and the interplay of different strands of funding adds both political and financial complexity.

These capital budget services are carried out now by a small staff within the Chancellor's Office, a staff that also provides capital planning services, assesses the condition of campus facilities to determine major maintenance needs, and provides cost comparisons and space utilization comparisons between specific OUS projects and campuses and similar construction and space utilization activities at universities in other states. This unit also is responsible for ensuring compliance with state statutes regarding 1 percent for Art and payment of prevailing wages although operational responsibility for these matters resides with each university on a project by project basis.

d. Financial Oversight

Financial oversight supports the fiduciary responsibilities of the State Board of Higher Education. However, this function also provides information on a scheduled basis in a common format to university leaders and can be used by them to monitor the financial condition of their universities. This is done in accordance with Board requirements for financial matters, including fund balance ranges, debt service percentages, and fee remission/financial data. It is tied to enrollment forecasts and actual enrollment and tuition income, as well. This function involves the aggregation, analysis, and reporting of standard information and includes the recently required five-year forecast of financial sustainability by campus.

e. Financial Services

The largest segment of services provided by the Chancellor's Office fits into this category. Some of the services are transactional and others ensure consistency.

- (1.) Financial records and reporting involves aggregating data from universities and preparing reports for them, for the Board, and for others.
- (2.) Accounting policies and procedures work involves establishing the rules of the road for accounting and reporting. This includes interpretation of Generally Accepted Accounting Principles and the promulgation of how they will be used at all universities in the System; interface with the State of Oregon's accounting and reporting system and consistency with those of its rules/procedures/timelines needed to produce annual and biennial statewide financial statements; establishing the rules, definitions, and timelines for annual financial statement reporting and monthly and quarterly reporting; determining the dates and sequences for the installation of new releases of the Banner Financial Information System (FIS) software to ensure consistency of data elements and reporting; interpreting and implementing federal and state requirements for accounting for monies from those sources; and providing assistance to



universities in the interpretation and application of accounting and financial reporting standards and rules.

- (3.) Monitoring of accounting records involves invoking FIS automated checks and audits and monitoring the accuracy of inputs from universities into FIS as well as the extraction of information from those records for financial and managerial reporting.
- (4.) Financial Statement Preparation involves the aggregation and validation of annual financial activities for inclusion in the annual financial statement that is provided to external auditors prior to inclusion in the required reports to the State of Oregon and other applicable authorities.
- (5.) Providing general accounting, grant accounting, and general ledger services to the Fifth Site. The Fifth Site includes not only the four smaller campuses and the Chancellor's Office own financial information but also is the "aggregation instance" of Banner FIS that includes certain financial information from all seven universities. The consistency of Banner codes and rules is designed to ensure that the financial information from all universities adheres to the same data definitions, processing and reporting schedules, and is subject to the same audit checks for accuracy, completeness and consistency. In addition, the Controller's Division provides training and advice about the Banner FIS system to university staff.
- (6.) Fixed asset accounting rules are developed and implemented by the Controller's Division in order to meet federal, state, and OUS requirements for acquisition, capitalization, depreciation/amortization, inventory control, and disposal of assets.
- (7.) Negotiation of finance and administration rates for indirect cost recovery from federal agencies and other providers of grants and contracts involves demonstration of costs and the negotiation with the cognizant federal agency or other external grantor of rates for the recovery of overhead expenses incurred by universities in support of activities funded by such grants. In the past, all such negotiations were conducted by the Controller's Division but the larger universities now prepare their own proposals and conduct their own negotiations. The smaller universities continue to rely on the Controller's Division for these services.
- (8.) In furtherance of applicable OUS, federal, and state policies, the Controller's Division establishes and implements appropriate rates for the payment or reimbursement of employee travel expenses. These are implemented in the Banner FIS system and training is provided to university staff by Controller's Division personnel.
- (9.) Payroll operations within the Chancellor's Office include an aggregation instance of the OUS Human Resources Information System (HRIS) within the Fifth Site; the processing, depositing, and reporting of federal and state income tax

withholding; required reporting of payroll regulatory compliance with regard to workers compensation and COBRA subsidies; required reporting of information to the Oregon Employment Division; and the centralized payments and required reporting on behalf of all universities and employees to vendors of amounts from mandatory and voluntary payroll deductions (FICA, PERS, PEBB healthcare insurance premiums, ORP, 457, 403(b), PERS supplement, charitable contributions, parking fees, life and disability insurance, etc.).

- (10.) Filing of returns and other appropriate forms and papers and the payment to the federal government of taxes owed by the System or its universities, most notably Unrelated Business Income Tax.
- (11.) Cash management rules and services to ensure the timely deposit and consistent and appropriate safeguarding of cash and other income.
- (12.) Investment services include the recently established central bank and focus on maximizing returns on System and university cash by pooling funds and dividing them into investment tranches of short, medium and longer term duration in order to meet the necessary payments to employees and vendors owed by the System and the universities while maximizing the return on cash through appropriate investment and liquidity. Significant additional revenue is generated for the System and the universities due to the pooling of large amounts of cash and the ability of the investment managers to invest for longer terms (with concomitantly higher earnings) because of managing cash centrally so that advantage can be taken of situations in which the short-term cash need spikes of one campus can be offset by the lower cash needs at that time of the other members of the System (allowing more cash to remain invested and greater returns to be earned than would be the case if each university had to meet its own needs separately).
- (13.) Debt management services include the issuance and accounting for all debt issued by the System and campuses and by the state on behalf of the System. These include short-term and long-term obligations and range from commercial paper to long term general obligation and revenue bonds. The necessary accounting to ensure compliance with tax exempt status on eligible bonds is a significant and complex undertaking that requires specialized training and constant vigilance because of the significance of legal and financial penalties. Also required are annual tax filings relating to federal government arbitrage guidelines and rules. The pooling of debt allows for larger issuances and lower administrative costs for issuance and administration of debt. It also permits lower rates due to the size of the pool. But, perhaps even more importantly, it allows the efficient structuring of debt to minimize interest costs on taxable debt and permits the System to manage its debt issuances in a manner that admits of maximum utilization of private use of bonds while maintaining tax free status on tax-exempt debt. (The Oregon University System issues and manages both taxable and tax exempt debt to finance university projects.) The pooled debt

comes from a large number of projects across all the campuses. Only rarely has any debt issuance involved just one campus or just one project. Obviously, the accounting for and reporting associated with debt issuances and the maintenance of the covenants associated with each issuance must continue for the life of the debt (often up to 30 years). Opportunities to refinance debt across campuses and projects have led to significant savings in recent years. These savings have helped to finance the OUS internal bank, an entity overseen by the vice presidents of the seven campuses plus the vice chancellor for finance and administration.

- (14.) Coordination with the state auditor and external auditors is another function of the Controller's Division that comes into play most particularly during the external auditor's review of internal controls and of the annual financial statement, as well as in federal department audits of financial aid and federal grant activity. Consistency of approach, of practice, and of data is a very important aspect of this coordination activity.
- (15.) Transparency reporting to the state and maintenance of the state-required House Bill 2500 website.
- (16.) Advocacy with the Government Accounting Standards Board (GASB), federal agencies, and the Internal Revenue Service on behalf of the Oregon University System and all of its universities, organizations, and offices.

f. Non-financial Data Collection, Analysis, and Forecasting

Conducted through the Office of Institutional Research (IR), these activities include oversight of the integrity of the Student Centralized Administrative Reporting File (SCARF) system and its database (which contains information about students, courses, class sections, prospective students, etc.). This system, largely fed by the Banner Student Information Systems maintained by each university, provides the common data elements that lead to the production of enrollment reports, the biennial Fact Book, and most of the information in the annual performance report prepared for the Board, the biennial performance report prepared for the legislature, and the achievement compacts between the System and each campus and the Oregon Education Investment Board. In addition, the IR office works with each university to forecast enrollment at a detailed level. This includes student characteristics such as ethnicity, county of origin (for residents), state or country of origin (for nonresidents), source of enrollment (high school, community college, other transfer, community), and status of students by attainment (freshman, sophomore, junior, senior, masters, professional, doctoral, nonadmitted, postbaccalaureate). In addition, the IR office compiles data on courses of study and degrees/certificates, conducts special studies of student and graduate behavior, and works with similar offices in the community colleges, K-12 schools, Oregon Employment Division, Oregon Revenue Department, federal government, and other states to track student and graduate progress and outcomes. The IR office also

reports data to the federal government and to national associations and works with other education segments in Oregon on the statewide student data systems. The protection of privacy, embedded in federal law, is one of the roles of this office, as well. Reporting to the state and to the federal government within those privacy parameters is something that must be enhanced if the state is to have better information and if legal requirements are to be met. Oregon is one of the states chosen recently to participate in a foundation-funded and federally encouraged effort to determine more efficient and effective ways of conducting such reporting while meeting legal mandates. One variant being considered actively is to move some reporting to the federal government from the campus level to the System level to ensure greater interinstitution data consistency and reliability while continuing to meet individual campus/institution needs and desires.

g. Legal Services, Affirmative Action Reporting, and Compliance with Board Policies

The Chancellor's Office provides legal services for the State Board of Higher Education, the Chancellor's Office, and for the four smaller universities. These include advisory services, litigation services, contract review, and retention of outside counsel. In addition, for all seven universities, this unit provides required affirmative action reporting to the state and federal governments and oversees university adherence to Board diversity, sexual harassment, and consensual relations policies for students and employees. The Chancellor's Office also provides contract templates and standard language for use in procurement and contracting activity entered into by universities or the System office.

h. Risk Management and Insurance

A relatively new responsibility for the Chancellor's Office, added under provisions of SB 242, is that of a strategic enterprise risk management program, including risk assessment, risk mitigation, risk management training, and the purchase of insurance and the management of claims and litigation filed against the System or its universities. This includes student health insurance, workers compensation, liability, property, marine, and other specialty insurance (for example, for internships, experiential learning engagements, international travel, online course revenue bonds, and research) that are either required by law or needed to protect the System and the universities from financial exposures due to torts, property loss, accidents, and other perils. Significant cost savings are achieved through the pooling of risk and the volume purchase of insurance. Another function is the requirement that vendors and contractors be insured and provided certain levels of insurance protection for the System office or university entering into the purchase or contract. The risk management office also provides or is implementing internal management directives for best practices regarding claims management and investigation, risk assessments, and regulatory compliance including environmental health and safety policies used by the universities and Chancellor's Office. Additional guidance for crisis management, crisis communications, continuity of operations and a review of cyber security redundancy are being developed at present.

i. Labor Relations and Human Resources Services

Although each university with faculty unions bargains separately, all are connected in their bargaining strategies by the bargaining framework developed each cycle by campus leaders collectively under the convening of the Chancellor's Office. Perhaps more pertinently to shared services, the Chancellor's Office conducts the bargaining with the statewide staff union. This also leads to the Chancellor's Office having the appeals role in all staff grievances and to the Office having some responsibility for the classification system that underpins staff salaries and wages. These functions help to provide the consistency required when administering a single statewide collective bargaining agreement that crosses all seven universities and their multiple offices and locations. Staff also serves as counsel in arbitration cases, saving outside counsel fees. The overall bargaining strategy of the System and its universities is developed by the Administrative Council and includes not only salary but employee benefits and working conditions parameters. This will become even more important now that OUS is not a state agency and is no longer tied to DAS in bargaining or subject to state restrictions on the size and composition of employee compensation changes.

On a related note, OUS currently maintains framework rules for academic personnel matters, including faculty rank, sabbatical and other leave, and promotion and tenure process.

j. Internal Audit

The internal audit function is intended to be an objective assurance and consulting activity designed to add value and improve operations throughout OUS and its universities. It brings a systematic approach to evaluating and improving the effectiveness of risk management, control processes, and governance. It serves as the point of contact for external auditors from audit firms, the state audits division, and federal agencies and, as such, is critical in negotiating the rules of engagement, schedule and scope for each audit engagement, coordinating the schedule and work of these external auditors, and interpreting that work for OUS staff and managers. It advises and trains clients at all seven universities and in the Chancellor's Office to improve governance, risk management, and control processes.

Each year, the Internal Audit Division (IAD) of the Chancellor's Office develops and implements an audit plan prepared using risk-based assessment methodology. The planned engagements include, inter alia, reviewing, evaluating, and making recommendations concerning internal controls established to ensure compliance with laws, policies, and contracts; the safeguarding of assets; the reliability and integrity of financial and operating information; the economy, efficiency and effectiveness with which resources are employed; and the management, control and protection of information technology systems, the data they hold, and the processes they use.

In addition, the Internal Audit Division develops statements and reporting procedures regarding ethical behavior (e.g., the OUS Code of Ethics and the Fraud, Waste, and Abuse Internal Management Directive). In support of these efforts, the IAD has established and maintains the Fraud, Waste, and Abuse Reporting Hotline and evaluates allegations of unethical practices and/or misconduct to determine if they are substantiated and to prevent future occurrences.

k. Advocacy

The advocacy functions of the Chancellor's Office fall into two categories: legislative advocacy and media relations. The legislative relations and advocacy activities include analysis of legislation and representation of the System and its universities to the Oregon Legislative Assembly with respect to policy, regulatory, and appropriations bills. The System office seeks to coordinate the work of university legislative advocates so that the universities and the System have a congruent set of positions and messages about policy, budget, and regulation.

The media relations function seeks to provide information to the news media and the public regarding the work of the Board, the Chancellor's Office and the universities and to do so in a way that advances the goals of the Board and the education goals of the state. Strategic messages and media strategies are developed by the Chancellor's Office in collaboration with the public information officers of the universities. The overall goal is to provide clear and congruent messages to the public about the status, value, needs, and goals of the university system and Oregon public higher education.

The office also publishes Systemwide brochures and reports ranging from the Viewbook, to a handbook for high school counselors, to a guide for becoming a teacher in Oregon, to reverse transfer, to the state's 40-40-20 goals and strategies.

l. Purchasing and Contracting

The Chancellor's Office provides support for the all seven universities' capital construction staff and for the general administrative staff of the smaller campuses. This includes developing, maintaining, and updating contract and bid templates for various types of projects and the general conditions for contracts. The Chancellor's Office has a limited role in purchasing, maintaining, and updating System-level rules and procedures (in consultation with university staff). Most purchases and contracts are made by the universities directly through processes conducted by the universities. In a very few cases, rules prescribe limits on university official's abilities to enter into contracts. Generally, non-competitive emergency purchases and contracts of more than \$5 million in value require approval by the vice chancellor for finance and administration. In addition, employment contracts of more than three years duration (for non-tenure track unclassified employees) require authorization by the Chancellor (as to length of term

only). Further, leases of property to or from non-university entities of longer than 15 years duration require approval by a Board committee. All other purchasing and contracting activities require university approval only.

The Chancellor's Office serves as the reporting agent and liaison for the System and the universities with the state with regard to reporting about and compliance with state statutes and rules regarding contracting with minority and women-owned business enterprises, small businesses, qualified rehabilitation facilities, as well as State Board of Higher Education requirements relating to sole source contracting.

The Chancellor's Office also develops and maintains a roster of contractors and professional consultants for construction-related services for use by universities for smaller contracting jobs, obviating the need for separate procurement activities by the universities.

Finally, the Chancellor's Office maintains Systemwide contracts in order to obtain lower prices than otherwise would be available and reviews and authorizes cooperate contracts. Examples include the contracts for certain software licenses, travel cards, and procurement cards.

m. Employee Benefits

The Chancellor's Office is the contact point between OUS and the state with regard to the benefits offered through the Public Employees' Benefits Board (medical insurance, dental insurance, vision care insurance, life insurance, long-term and short-term disability insurance, accidental death and dismemberment insurance, and long-term care insurance) and the Public Employees Retirement System (PERS, PERS Supplemental Plan, IRS Code Section 457). The annual updating of each OUS employee's PEBB benefits at the time of open enrollment is a complex and time-consuming task, particularly with respect to the payroll system (including its interfaces with vendors). In addition, the Chancellor's Office manages self-pay and Employee Assistance Program contracts through the Public Employees' Benefits Board for participating universities. Perhaps the most important, technically complex, and time-consuming employee benefits service provided by the office is that of administering the defined contribution retirement plans that are sponsored by the Oregon State Board of Higher Education and are variously utilized by classified and unclassified employees at all universities. These include the Optional Retirement Plan, the PERS Supplemental Retirement Plan, and the various IRS Code Section 403(b) plans used by employees at all universities and the Chancellor's Office. (Two other plans, Section 415(m) and SRP [Supplemental Retirement Plan], are administered by the University of Oregon for certain of its current and former administrators and other employees.) Ensuring compliance with federal public pension laws is a tedious effort governed by complex and byzantine rules established by the federal government. Protection of the status of these plans as governmental plans is necessary in order to avoid substantial penalties and legal liability for the System, its

universities, and the employees and retirees utilizing these plans. Early Retirement Incentive Programs also offer particular complexity as they must thread the needle of federal law and PERS and other requirements.

Finally, the Chancellor's Office maintains the various rule-based employee leave benefits (vacation, sick leave, military leave and military leave donations, fellowship leave, crime victim leave, holidays, etc.) as well as the policies regarding staff fee privileges, transportation benefits (pre-tax parking, transit/vanpool vouchers, bicycle commuter reimbursements), and matters dealing with career development, proper use of social security numbers for benefit plans, etc.

## **Section 4. Services Often Provided in a Shared Manner Not Provided by OUS**

There are many services that can be shared and often are shared within and among organizations. Some are noted in the section about services shared within OUS currently. However, traditionally, a large variety of other administrative and support functions is provided in a shared services manner. Organizations choose to share these services for four main reasons: to save money, to provide standardization and consistency, to make scarce expertise available to low volume users, and due to legacy investments (which can be a euphemistic way of saying inertia as well as fear of the investments needed to make a change).

The point of this section is not to suggest that any particular service should be centralized for some or all users in a Shared Services Enterprise. It merely is intended to identify some opportunities not presently considered in OUS.

At a 2012 meeting of the State Board of Higher Education's Governance and Policy Committee, John Curry, a senior consultant for Huron Consulting and a former vice president at several large public and private universities, pointed to new purchasing/procurement systems that use modern technology not just to process purchases but also to track shipment and inventory and to link to accounts payable systems so that costs are driven down not only on the initial acquisition but also throughout the entire purchasing, inventory, and payables processes. Large volumes (transactions and dollars) processed through such integrated systems, Dr. Curry argued, drive down costs and save considerable money when compared to decentralized systems. OUS does not utilize such technology or such systems, instead relying primarily on campus-based (and at some campuses, department-based) purchasing and contracting for most or many items. And none are linked in the manner described by Dr. Curry to the accounts payable system within Banner FIS, the current OUS accounting and financial reporting system.

Information technology (including telecommunications) often is provided in a more shared environment than is the case within OUS. This permits both greater consistency of information and practice and lower costs for licenses, system installation, consulting, hardware, and data security. With the advent of cloud computing and ubiquitous communications, the issues



surrounding management and dealing with transaction costs and the complexities of overlapping contracts and service agreements may be one of the reasons for sharing. Pricing may still be related to volume and size but rapidly evolving options may militate against entering into some of the longer term agreements that volume contracts imply. This arena should be considered for cost, security, and consistency reasons as well as reduction of overhead but it is not always as obvious an area for exploration as is procurement/payables. Opportunities in newer technologies also should be explored, from services offered through the cloud to greater use of common instructional technology platforms and services.

Large organizations often have many more shared human resources and personnel services than does OUS. These help ensure consistency of practice (often a defense in litigation) and also are intended to save money in transaction costs. Special care must be taken with regard to personnel matters that deal with statewide bargaining units or with academic personnel rules and procedures.

Healthcare services (clinics, student health insurance, etc.) also may benefit from sharing, especially in the new coordinated care environment favored by state policy and federal law.

Central acquisition and cataloging of library materials is an area that often is shared among universities. This allows for discounts on journal subscriptions, reduction of transaction costs, and use of expertise in cataloging. This is not the standard common practice for all OUS universities but some of these services are provided to some of the campuses through the ORBIS Cascade Alliance.

Some universities share expert contract negotiators, project managers and other design and construction professional services—especially when individual campuses do not have a consistently high volume of complex projects that allows them to economically build up and maintain that expertise on their own staff.

The management of intellectual property, a highly technical area that can be fraught with risk and possible reward, is another area that sees inter-university sharing in other settings and states, particularly among public universities.

Collection of receivables and debt payments (including student loan payments) is another area that has seen moves toward multi-institution sharing. That may become even more pertinent as the emphasis on affordability and debt coincides with institutional financial difficulties. Debt counseling protocols also may see some sharing opportunities.

The negotiation of finance and administration overhead rates with granting agencies (especially the federal government) is a topic area than once was more centralized in OUS than it now is. The complexities and record keeping requirements involved in administering federal grants may suggest that those universities with lesser volumes of grants and contracts may consider sharing this function, perhaps using the services of one of the universities with substantial grant and contract activity. A related matter is that of grant accounting (pre and post award). This is a

highly complex area and one that often has tripped up even larger operations. Smaller volume universities also might consider sharing in this arena.

Some universities have begun to consolidate certain aspects of financial aid packaging and processing (ministerial functions and not counseling and decision making) across institutional lines. Most financial aid is bound by federal guidelines and, hence, admits of considerable standardization in its processing. This also could be tied to standard protocols on debt counseling and to collection of delinquent student loans. In at least one case, presidents in one state suggested to their system that this would be an important area for sharing.

The sharing of equipment and its maintenance is another common function. The sharing of motor vehicles is a well-known example of this.

Legal services are another area where greater sharing often characterizes the universities within a state than the situation that is under development in Oregon. The purpose is to help ensure consistency of advice and practice. This provides greater clarity and transparency to the public and students, as well as to policy makers at the state level. It also precludes the potential of disputes between universities reaching court.

Some universities, especially smaller ones, also share significant administrative and support functions. At the extreme, this includes shared presidencies. (Such consolidations have been undertaken in recent years in multiple states, including Georgia and Minnesota.) But the shared management of back office functions (e.g., purchasing, accounting, processing of financial transactions, packaging of financial aid) and of auxiliary enterprises (housing, dining, parking, etc.) could lead to reduced costs and more professional management and oversight than might individual operation.

## **Section 5. Potential New Services for Sharing**

Although most attention has been paid to sharing administrative and support functions among universities, the advent of changes in educational technology has begun to offer opportunities to share content and courses and even degree programs among campuses. Many universities, including several within OUS, use the same course management software even though they operate independently. The software and the services offered by vendors who develop and market such products give universities the option of sharing that goes beyond the individual faculty member, department, school, or university. Common software platforms can be used to offer courses and programs involving multiple faculty and universities in support of the same program of study or course for students. The popularity of massively open on-line courses (MOOCs) has opened dialog with the public and with policy makers about hybrid approaches to pedagogy and wrap-around services that suggest even greater scope for shared services with both efficiency and consistency as themes. There seems to be an almost endless list of possibilities in this environment for sharing that could be explored and advanced if the goals of

lower cost (and lower tuition price), student progress, and predictable quality are kept uppermost in mind by all universities.

## Section 6. Mandatory vs. Voluntary Services

Of great concern to universities is a fear of being forced to share services, either within the university or beyond it. The craft approach the academy has taken to the work of knowledge professionals (faculty) often militates against standardization or sharing. (Interestingly, this has not proven to be a barrier in research, where collaboration among faculty across disciplines, universities and even countries has become the norm as the faculty seek to advance knowledge. This, in turn, has led to universities developing mechanisms to collaborate among themselves and even to states inventing methods to encourage such collaboration. (The Oregon Innovation Council is an illustration of this last point.))

There are three sets of arguments for making some services mandatory. They revolve around the cost of offering the service (due to high intrinsic cost, scarce specialized expertise or stringent regulatory constraints), the value of volume in driving down unit cost, and the negative externalities that some universities might face if all universities did not share in a given service.

The case for voluntary services is to preserve maximum choice for each university in order to meet institutional desires for maximum autonomy, for branding and identity, for purposes other than cost savings (e.g., “buying local” or buying from donors), unique needs, or confidentiality.

The case for mandatory services is most easily made where there is a legal requirement for sharing. Such requirements are rare but could include maintaining current PERS-covered employees in PERS for the duration of their employment. In other cases, there may be de facto requirements to share (as in the case of PEBB for 2013-15). The requirements of federal law with respect to pension plans may provide a powerful incentive to keep the existing OUS plans and any Tier 4 Optional Retirement Plan in a shared mode for all or most universities. However, in all these cases, there is no real legal mandate to do so.

High intrinsic cost is often cited as another reason for making certain shared services mandatory. Although no cases come immediately to mind, the high cost of early Magnetic Resonance Imaging equipment led to hospitals sharing such equipment until prices fell because few individual hospitals and clinics could justify the high cost of the investment in equipment, training and maintenance based solely upon their own usage. However, as the prices of the equipment declined, so did sharing. This suggests that the service is not really mandatory but, rather, its sharing is driven by cost considerations that can change over time.

High volume transactional services (insurance, investments, purchasing, payment processing, order fulfillment, packaging of similar products, financial systems, MOOCs, large survey classes)

offer the clearest examples of those that benefit from building as large a pool of users and transactions as possible. Often, the issues that militate against sharing in these cases deal not with getting the lowest price or highest return but with the desire by users to do things in ways that seem more comfortable or controllable for them. Although low cost or high return is a theoretical value, it may be overridden by these other factors as well as factors relating to institutional pride. Rarely is a high volume service mandated by law. Its sharing is motivated by saving money—something not always paramount for end users unless that is required by institutional or higher authority.

The purpose of shared services, noted in the preamble of the principles adopted by the State Board of Higher Education’s Governance and Policy Committee, is to advance the achievement of the State Board’s four strategic goals (raise the education level of Oregonians, offer high quality education, conduct research that advances knowledge and Oregon’s economic vitality, and support vibrant communities throughout the state) plus holding down the tuition charged to Oregon students. The Shared Services Enterprise should not lose sight of the purpose advanced by the Board Committee. The goals of the State Board of Higher Education now form the basis of ORS 351.006, the legal codification of the State’s 40-40-20 aspirations.

The most often advanced argument for mandating that certain services be shared is the high cost of the negative externalities on some users if others opt out. Users of shared services usually benefit from a lower overall cost than they otherwise would pay for a service or by the availability of a service they otherwise could not afford to have or would not have based on technical, geographic or other factors. These cost and service considerations outweigh for them the loss of flexibility and autonomy that sharing demands. However, if one or more of those using the service decide either that they no longer need the service or wish to provide it for themselves, the costs for the remaining users either will rise or the service will be discontinued for lack of critical mass to make its provision economically viable. Smaller volume users and users in rural areas are more likely to be negatively affected if large users in urban areas desert a shared service.

In order to keep faith with one of the primary reasons for considering shared services, the impact on the tuition charged to Oregon students at every university should be a criterion used in determining whatever services are shared. (Perhaps the Board of Directors of the Enterprise should make certain that any decision by a university not to participate in a shared service is made with an understanding of the likely effects that decision will have on the tuition it will charge its students and the impacts that is likely to cause for the tuition charged by other Oregon public universities to their students.)

Another reason cited for ensuring that some services be mandated is the need for consistency of information and practice in order to meet the policy or oversight needs of the state, of the national government, or of other agencies. While consistent information often is and should be required, providing it does not necessarily mean that services must be shared or practices standardized. Instead, an effort could be made by the entity seeking consistency to make clear its data, management, timing and other needs. These even could include requiring the use of

certain software and common data elements and data element definitions. But the processes and services themselves need not be shared (but can be if users see value in doing so).

For a service to be shared effectively, it must meet the needs of customers. For that to be accepted, the culture of the Shared Services Enterprise must be one of customer service. Making some services mandatory would seem antithetical to establishing and maintaining such a culture. Hence, it would seem that services should be mandatory only to the extent required by law. In order to ameliorate the negative effects that can result if some universities opt out of one or more of the currently shared services, there should be notice provisions and perhaps even transition payments that soften the immediate blow. However, these provisions and payments must be reasonable and must be the least restrictive that they can be.

## **Section 7. Governance of a Shared Services Enterprise**

The governance of the Shared Service Enterprise must preserve the public nature of the enterprise, ensuring that the public interest is maintained. As such, it should be created by statute and accountable to the State and people of Oregon. However, it also must be an organization whose culture and practice is motivated by service to its customers and members. As such, it should be member governed. While these two purposes may set up a dynamic tension for the Shared Services Enterprise, it is essential that both be optimized.

Currently, the Oregon State Board of Higher Education has the powers needed to operate an effective Shared Services Enterprise. Those powers of the State Board that pertain to services ought to be transferred in their entirety to a new Shared Services Enterprise, established under Oregon law as a public corporation and not a state agency. The principles noted in section 2 of this paper should guide the legislation that establishes this new enterprise.

Because the Shared Services Enterprise (hereafter referred to as the Oregon Education Shared Services Enterprise or ESSE) would be a public entity, it must be governed in the manner of public entities. This requires that it be overseen by a citizen board appointed by the governor and confirmed by the state senate. However, because of the need for ESSE to be ever motivated by customer service it also should be overseen largely by those universities whom it serves. It could make sense, therefore, for ESSE to be governed by a board comprised of seven citizen members drawn from the governing boards of Oregon's public universities (one for each university, with the option to add another if the Oregon Health and Science University wishes to participate) plus two citizen members (to expand to three if OHSU elects to join the governance of ESSE) appointed by the governor and confirmed by the state senate specifically to serve as directors of ESSE and not of individual universities. This balance of board membership would ensure that no single university or type of university could dominate the board. The fact that most board members also served as members of the governing boards of Oregon public universities would help ensure that the needs of the universities were paramount in the decisions of the board and the operations of ESSE.

University presidents have proposed that the Shared Services Enterprise be governed solely by them or their designees as a means of ensuring that ESSE would always be focused exclusively on customer needs and customer service. This approach, however, does not address the public interest purpose of ESSE as well as might the use of citizen board members. Further, an entity that is governed by other appointed state officials might have difficulty obtaining appropriation funding—another desire of presidents. Finally, until and unless the State Board of Higher Education is abolished, that body may have governance responsibility for more than one university and may define the parameters to be used by the universities it governs as they participate in ESSE. This provides another citizen oversight connection to the Shared Services Enterprise.

The State Board of Higher Education’s Governance and Policy Committee, after considering both these approaches, has recommended that the Shared Services Enterprise be governed by a board composed of the seven university presidents (or their designees) plus two to three public members appointed by the Governor and confirmed by the state senate. This approach was recommended as a means of achieving an appropriate balance between public interest and customer service and to ensure that no one university or type of university could dominate the Shared Services Enterprise. The option for the Oregon Health and Science University president or designee to join the Board also should be preserved and made automatic if OHSU elects to share services provided by ESSE.

With its creation by statute, the Board of Directors of the Oregon Education Shared Services Enterprise would be a public body and would be governed by Oregon laws dealing with public records, open meetings, etc. The need for accountability and transparency militate against any other approach.

The Board, in line with the principles recommended by the State Board of Higher Education’s Governance and Policy Committee, would be required to meet periodically to plan for the Enterprise, to hire and evaluate staff (including a president and a board secretary), to assess the quality and effectiveness of the services offered and operated by or through the Enterprise, to ensure that the services are of low cost and high value, to assess the effect the cost of the services (and reasonable alternatives) has on the tuition charged to Oregon students, receive and adopt financial reports and budgets, receive and act on audit reports and findings, and provide reports and information to member universities, to other customers, and to state government.

(Obviously, the participation of universities in ESSE and the services they choose to share through that Enterprise’s mechanisms will be directed or influenced by the decisions and actions of the board or boards that govern the universities.)

## Section 8. Financing

The financing needs of a shared services enterprise come in three dimensions: operations, working capital, and long-lived capital investment. Each must be addressed if the enterprise is to be financially viable and sustainable over a long period of time.

As noted earlier, the seven presidents favor funding the ESSE through state appropriations only. Because most of the services being shared are administrative and support in nature, past history would suggest that such appropriations would be vulnerable and subject to disproportionately high budget reductions. That could put at risk critical services or militate against the viability of the ESSE. Further, appropriation funding, even if it is stable and adequate, removes service providers from their customers in a very real way. If services are free, perhaps customers will use them more. But if budgets are guaranteed, ESSE may not be as attuned to customer service as it might be if its finances were dependent on charges to customers. Such charges, if they became the only source of funding for ESSE, would have to include all appropriate overhead as well as direct expenses. Many rate-funded shared services entities exist within the governmental and education segments of American society, so the mechanisms and algorithms needed to establish adequate and equitable charges and to ensure they are competitive in terms of price and quality with market alternatives are available. Separate charges would be needed for each service or class of service. Usually, these charges work best if they are clear, transparent, easily comparable with private alternatives, simple to calculate, and at the item level (specific good or activity or based on time or volume).

The alternative of using assessments based on some formula or on gross levels of service use or estimated on historical proportions of usage also is possible and often used. This has the advantage of being less expensive to charge but has the big disadvantage of being removed from the actual service usage in ways that make it difficult for customers to gauge the costs of what they specifically purchase or consume.

Therefore, charging rates for service use and not making assessments would appear the more desirable mechanism for funding operating costs or for supplementing whatever state appropriations are made to ESSE to provide support for operations.

In addition to the actual charges for usage, ESSE also needs two other kinds of financial support. The first, working capital, is needed to ensure that operations can continue effectively in the period between the provision of a service and the time the customer actually pays for it. That lag could be several months in most cases due to the nature of the service, the service cycles, the billing cycles, and each customer's payment practices and periods. (Some customers make it a practice to delay payment as long as possible or to contest many (or most) bills so that they can retain their own cash for as long as possible.) Private companies have a combination of equity investment, retained earnings and lines of credit with financial institutions to help them address these and other cash flow issues. ESSE would not have equity investment capital available to it but could use a combination of transferred fund balance from the Chancellor's Office or universities, a one-time appropriation, and short term borrowing to address these

matters. The amount of funding needed for this purpose would depend upon how extensive the services and costs of ESSE were, the nature of the services, and a variety of other factors.

Another use for working capital is to get into new service areas and to invest in new technology and practices or to wind down current operations that are slated for termination. These matters also must be considered in establishing the financial viability of the enterprise. The need for working capital is especially acute at the start of ESSE operations. Without it, the enterprise could be seriously hobbled and its success jeopardized.

The need for capital investment for equipment, systems, buildings or other long-lived assets cannot be ignored. Because OUS in most cases has not funded depreciation of its current capital assets (including systems) and because there is not a readily identifiable source for new investments such as systems to support new initiatives and services, there is not a method currently and readily available to fund capital investment needs.

Capital can be funded in a variety of ways: through the use of accumulated earnings or fund balances, through special assessments to customers, through the issuance of debt repaid through user charges, through the issuance of debt repaid by state appropriations, and by state appropriations. In any given instance, some or all of these methods might be appropriate. Hence, it makes sense for ESSE to have the legal authority to tap any and all of these sources. (This would include having access not only to revenue bonds but also to Article XI-F(1) bonds which are full faith and credit obligations of the state (general obligation bonds) whose debt service would be paid by ESSE, as is the case today for many university projects.)

Some of the services offered through ESSE will be those that fulfill state needs for consistent information and practice. This is perhaps clearest in student information systems and financial information systems whose data will be used by the Oregon Education Investment Board in negotiating and tracking achievement compacts with universities. But other matters also may demand a degree of consistency and standardization that otherwise might not be countenanced by some of the individual universities. Insofar as the state is desiring or demanding a level of consistency it is not inappropriate for state appropriations to defray some of the costs that ESSE incurs in ensuring and operating systems and processes that provide that consistency and standardization. The alternative would be to charge customers for this work—work they might see as having limited (or even negative) value to them.

Another argument for some state funding for ESSE is to provide monies for innovation that the universities might not yet see as having value. Some of the nascent opportunities in curriculum sharing could be examples.

A third argument may relate to the need to pay ESSE to provide some services to some customers who for reasons of size or lack of financial means might be unable to pay the standard charges made by ESSE for those services. This is a variant on the regional and small universities allocations made through the current Resource Allocation Model used by OUS to distribute state general fund appropriations. It would seem inappropriate to charge higher rates



to some customers than to others. But the seven universities are of very different sizes, have different missions and programs, serve different student markets, have different pricing power in terms of tuition, have different philanthropic and business opportunities, and face different costs of service due to location. If the state values opportunities for students in rural parts of Oregon or those educated by universities who serve lower income students, some recognition might have to be made by way of appropriations to ESSE so that it can pay costs on behalf of the campuses serving those areas and students most directly. Perhaps the clearest examples of this come from volume buying (where smaller campuses do not have the same scale as larger campuses) and the current PEBB system where lower cost alternatives exist for employees and families in the Portland metropolitan area than are available elsewhere in Oregon. Part of this may be dealt with by lower rates being charged for those with lower cost alternatives since some of the value of sharing services involves spreading high and low cost situations across the entire enterprise for the benefit of the whole. But such rate differentiation may not always be viable, effective, or in keeping with state goals.

Care should be taken, if some appropriations are made to support ESSE in providing affordable services to those who otherwise could not pay full cost for such services, not to establish a dependency culture either within ESSE or at the universities who benefit from those appropriations. The true value of sharing services comes in driving down total overall cost. Distortions to true cost charging may militate against achieving overall lowest total cost unless care is taken by both ESSE and the state. These distortions could be exacerbated if the Shared Services Enterprise ever is expanded to include members or customers in addition to the public universities in the state.

Establishing the Oregon Education Shared Services Enterprise on a firm and financially sustainable basis is imperative and must not be given short shrift due to complexity, to cost, or to political considerations.

## **Section 9. Statutory Provisions and Amendments**

Any undertaking as complex as establishing a Shared Services Enterprise as a governmental entity requires complete and careful review of existing statutes as well as developing new legislation. That is especially true when the powers of the new entity represent only some of the powers of an existing public organization (in this case, the Oregon State Board of Higher Education, the Oregon University System, and the OUS Chancellor's Office). Because some of the responsibilities of the State Board, OUS, and the Chancellor's Office may remain with those entities, others may be transferred to the new boards of public universities, others may be transferred to a new Oregon Department of Postsecondary Education, and still others may become the responsibilities of the Higher Education Coordinating Commission or the Oregon Education Investment Board (two existing agencies of the State of Oregon), particular care must be taken to make clear where each function will reside and how a transition from current responsibilities and ways of doing business will take place. (Exhibit 1, as noted earlier, contains some suggestions about placement of functions.)

Obviously, legal counsel will need to sort through the various complexities and develop needed amendments to existing legislation. Most of the statutory powers of the Oregon State Board of Higher Education reside within Chapter 351 of the Oregon Revised Statutes. (Some provisions of other statutes, such as ORS 352 and ORS 286A also should be reviewed.)

Each section of Chapter 351 should be reviewed in detail. It is already evident, however, that many sections must be amended and that others might have to be amended in order to effect the establishment of a Shared Services Enterprise, to enable institutional governing boards for some or all of Oregon's public universities, and to create a State Department of Postsecondary Education—the three largest changes contemplated in a proposal being advanced by the Oregon Education Investment Board.

A brief scan of Chapter 351 would point to the desirability of beginning such a review with the following sections: .052 and .054 (budgeting); .060 (property, vehicles, attorneys, financing agreements); .065 (personnel); .070 (collective bargaining, purchasing, affirmative action, equipment, recycling, investments, MWESB); .085 (accounting, student services, capital, management analysis, legal services, academic affairs, education research); .092 (data); .094 (group insurance); .096 (insurance); .097 (payroll); .100 (advertising and publicity); .110 (legislative relations); .140 (purchase of property); .150 (real property); .160 (construction); .180 (building insurance); .190 (land acquisition); .210 (surplus property); .220-.250 (intellectual property); .260 (planning assistance); .277 (vehicles); .282 (indemnity); .284 (indemnity for risk management); .287 (responsibility for liabilities); .310 (appropriations); .345 (bonds); .350 (bonds); .356 (financing agreements); .440 (sales to federal and state governments); .450 (bonds); .455 (bonds); .460 (bonds); .473-.485 (revenue bonds); .505 (federal funds and donations); .506-.539 (specific capital projects funded with bonds); .545 (bonds); .615 (auxiliaries' building and equipment replacement); .626-.628 (construction and modernization accounts); .653 (interstate agreements); .704 (healthcare benefits for part time employees); and .708 (reporting to governor and legislator about faculty employment status).

Other responsibilities of the State Board of Higher Education also may be appropriately transferred to the Board of Directors of the Oregon Education Shared Services Enterprise. In addition, some of the financial resources (e.g., appropriations and fund balance) of the State Board of Higher Education and its Chancellor's Office may be transferred to ESSE, either in the initial legislation or in implementing legislation to be considered more fully in the 2014 session of the Legislative Assembly.

Exhibit 2 begins the task of outlining the sections dealing with what may be the most important aspects of establishing the Oregon Education Shared Services Enterprise. It draws from the principles outlined in Section 2 of this paper. Exhibit 2 does not provide an exhaustive list of the provisions needed in enabling legislation but provides, instead, a framework that identifies some of the major issues that must not be ignored. Although the Oregon Education Shared Services Enterprise may be established in 2013, it is likely that further legislation will be needed

in 2014 and thereafter to refine its roles and responsibilities and the parameters within which it can and should operate.

## Section 10. Transition

The Oregon State Board of Higher Education and the Oregon University System presently have the statutory powers necessary to provide shared services for the universities but, arguably, may not have the authority to extend those services to other education entities. The services the Board may provide to universities either already are provided or could be provided through OUS as a public university system, established in ORS Chapter 351. A public university system is not a state agency and, therefore, enjoys considerable flexibility that would not be possible under regular state agency rules for service provision. It is critical to the success of the Oregon Education Shared Services Enterprise (ESSE) that all the relevant powers of the Board and the System be maintained in ESSE or transferred to it and that ESSE not be or become a state agency.

As governance changes are made for Oregon's public universities, it is important that the powers and possibilities of a Shared Services Enterprise be maintained and not abrogated directly or inadvertently by those changes. Therefore, considerations of shared services must be entertained by any and all legislation that would change public university governance.

If the State Board of Higher Education and the Oregon University System are dissolved or undergo significant change, the powers they have pertaining to shared services (current and potential) must be transferred into a free standing public enterprise that is not a state agency (i.e., ESSE).

Even if the State Board and OUS continue and continue in much the same form as today, it may be desirable to establish ESSE in order to permit explicitly the kind of customer-centered but public interest fulfilling approach that is contemplated by the discussions in this paper. Hence, it makes sense to adopt legislation in 2013 that establishes the framework of ESSE and provides it with needed authority.

That authority, for 2013-2014, might include responsibility for hiring a president, a secretary and other key staff; preparing the framework within which the Board of ESSE and its staff and contractors will operate; developing a transition plan for currently offered services; preparing possible rates to be charged for services; determining financial requirements for 2014-15 and 2015-17; and setting up an approach for determining which services would be offered in 2015-17 and how others would be added and some changed or deleted in future biennia.

The Oregon University System is an on-going \$3 billion per year enterprise serving more than 101,000 students. Disruption of its operations and services cannot be permitted to occur or there could be deleterious and long lasting effects on both institutional efficiency and effectiveness and on student success. After all, the main purpose for sharing services is to

improve services and save money so that student education can be enhanced and tuition charges restrained. Therefore, an explicit and legislated transition period of at least one year's duration makes sense. Many contracts already in place (for insurance, for software, for employee benefits, etc.) extend into the future. Changing their character and the nature of who is using them could have negative effects on both cost and service for some or all the universities. Further, the unwinding of any enterprise as complex as OUS must be done in a planned and logical manner.

Therefore, continuing all current services for at least a year using the current service provision mode makes sense. This will allow for more careful consideration of how best to approach both shared services and those services that will not be shared by some or all of the universities. This also would permit any needed legislative amendments to be considered in the 2014 session without having to undo any actions already taken.

If ESSE is established, however, there are two parallel courses that must be taken. The first is to set up the board and the legal framework of ESSE—a step that should be undertaken as soon as possible so that the board can begin the planning and, if appropriate, the rate development necessary to begin effective service provision in a year's time. Second, a transition plan must be devised that takes into account long term contractual requirements and the steps needed to transfer from the current mode of service provision to either a shared mode within ESSE or an individual university mode. (It is likely that some universities will elect to have ESSE provide some services that other universities choose to provide directly or through another avenue. The plan also must take this into account.)

The State Board of Higher Education's Governance and Policy Committee is considering establishing advisory groups drawn from university personnel and outside experts to look at which services to share, the basis for such sharing, and how sharing would be done. That work should begin immediately and continue throughout the planning period. This demands that the advisory groups' efforts be taken into account by those charged with setting up the Shared Services Enterprise. A tentative listing of the advisory group topic areas was shared with the Oregon State Board of Higher Education's Committee on Policy and Governance on February 15, 2013. The subjects included:

- a. Employee Benefits (pensions, healthcare, staff and dependent fees for university enrollment, etc.)
- b. Financial Services (accounting, banking services, investing, debt management and services, financial information system, collection of receivables and debt, auditing, linkage to state OEIB, etc.)
- c. Administrative Services (purchasing/accounts payable, contracting, risk management and insurance, workers compensation, human resources information system, legal, payroll, facilities, construction management, labor relations and collective bargaining, etc.)

- d. Data Systems and Services (student, advising, scheduling, institutional research, linkage to state OEIB, etc.)
- e. Student Support (admissions, registration, transfer, advising, scheduling, debt counseling, etc.)
- f. Education (shared courses and programs, shared platforms, standards for accepting credit for prior learning, library and materials, etc.)
- g. Technology (technical standards, services, systems and platforms)

The employee benefits work group was established in February and reported to the Committee concerning employee pensions and deferred compensation plans (the group's first topic) at the Committee's March 15 meeting.

University presidents and chancellor's office staff have been requested to suggest names of participants for the other advisory groups. The subject of advisory groups will be discussed briefly at the April 16 meeting of the Governance and Policy Committee and the composition of any groups will be developed then or at a later time.

The State Board of Higher Education's Governance and Policy Committee should ensure that the charges given to each work group not only deal with the specific services within the work group's stated its scope but also that the group consider the broader implications and relationships of the services they are considering on the whole of the Enterprise and on the operations of each of the seven universities. This is particularly true in areas of functional overlap among the groups (such as between technology and many of the other subject areas).

Obviously, other areas in addition to those listed above also require careful consideration. These include budgeting, legislative advocacy, healthcare, student health insurance; grant accounting, financial aid packaging, equipment sharing, and others listed in sections 4 and 5 of this paper. Some of these logically could be assigned to the expected work groups but others may require either additional work groups to be established or take other approaches.

Special care also must be taken to ensure that collaborative projects and efforts among the universities are maintained during the transition and that matters such as the operations of the internal bank and of debt management be considered in ways that continue revenue maximization and cost minimization and do not jeopardize or harm the credit and credit ratings of the state, of OUS, and the tax exempt status of state and OUS debt. Continuing responsibilities to manage the current portfolio of debt must be maintained. (Interestingly, some OHSU debt still is managed by the Chancellor's Office nearly twenty years after the establishment of the Oregon Health and Science University as a public corporation separate from the Oregon University System. The responsibility for managing outstanding debt may either have to remain with the Chancellor's Office or be transferred to the Shared Services Enterprise, in part because debt issuances include many projects from several universities

within a single issuance and in part to meet the particular requirements of the covenants governing a specific debt issuance.)

A detailed time line must be developed that shows the various efforts required. Preferably, this time line would be prepared in conjunction with the enactment of any changes in the governance of Oregon's public universities. Lessons learned in other states would dictate that the key decision of establishing ESSE be made in the 2013 Legislative Session and that ESSE begin operations by July 2014. Delay will likely lead to inertia and not permit the establishment of the customer-oriented culture and independent legal status needed for the Enterprise to be successful. To that end, the State Board of Higher Education might be charged with beginning the work to establish the ESSE, hiring interim leadership and collaborating with current Chancellor's Office and university staff to develop specific plans for each service currently offered, possible rates, and the steps needed to ensure smooth transition to effective ESSE operations by July 2014.

Advice from other states also concerns making sure that those charged with planning and establishing ESSE be highly motivated and competent professionals and that all staff involved in the services, both in the Chancellor's Office and at the universities, be engaged in understanding the enterprise and trained in the new functions. Good and constant communication among all participants is critical and the necessity for strong leadership essential if the Enterprise is to be launched successfully. High quality and visionary leadership, highly qualified and committed staff, adequate and persistent employee development, and robust communications with staff of campuses and the Chancellor's Office are essential components of success. Other states also have recommended that employee assistance programs be available to help employees affected by the changes.

Communication with vendors and with other education providers also should be undertaken so that connections with them, necessary with vendors so that services can be provided from day one of ESSE's operation and with other education entities so that they can help shape how ESSE might be of most use to them if they were to choose to become customers of that Enterprise.

## **Section 11. Expansion to Other Participants**

The provision of shared services need not be limited to providing services to Oregon's public universities. Over the past few months, it has been suggested that Oregon's not for profit independent universities, its community colleges, and even its public schools might find some benefit from being part of a shared services effort. The expansion of shared services beyond the universities not only could provide greater volume (and, hence, likely lower costs for some services) but also could permit the viable establishment of regional sharing consortia.

Any such expansion would be based on the voluntary participation of customers and be conducted under the same framework as ESSE generally uses. However, certain services might be available only to public universities that are part of (members of) the ESSE legal entity. In the

area of employee pensions, especially, federal law makes sharing beyond that entity difficult or even impossible without calling into question the pension plans and their legal basis. Similar restrictions will apply to the issuance of general obligation bonds.

In most other subjects, though, ESSE could make its services available on an opt-in basis to private not for profit universities and their related entities. However, the legislation establishing ESSE must permit it to have the authority to extend its work beyond the public university members of its entity. Doing so does not, in itself, mean that those others become part of the entity or have a governance role in ESSE. That could be specified in the ESSE legislation, if desired. Alternatively, it could be left to the public board that governs ESSE to determine what governance role, if any, non-member customers would have. This paper suggests that the Oregon Health and Science University, if it elects to join ESSE, be permitted to participate in ESSE governance on the same basis as do other public universities. However, extending that authority to other types of entities may raise legal, practical and political considerations that should be addressed when and if it becomes necessary to do so. These matters also can be taken up during transition planning but not on the same accelerated time schedule as the planning for shared services involving the public universities.

As with university members, non-university customers could choose to partake of certain ESSE services and not others. The financial and service relationships between these customers and ESSE would be subject to negotiation and would have to be ratified by the appropriate authority or board of ESSE and of the non-university entity. Further work also must be done to determine the legal parameters within which entities other than Oregon public universities could participate in the Shared Services Enterprise. This suggests that expansion of ESSE beyond the public universities should not occur for at least twelve months, although planning to do so (either generally or in specific areas) could begin whenever it is feasible for that to be undertaken.

If legislation is required to permit some existing public (or even private) entities to partake of the services of the Oregon Education Shared Services Enterprise or if their participation in the work and services of ESSE is bound by different legal requirements than might pertain to universities or other customers, these provisions could be considered in 2014 or at a later time. The legislation establishing the Enterprise should be as broad and inclusiveness as possible with regard to the services to be provided and the customers who may use them.

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## **EXHIBIT 1: Possible Chancellor’s Office Function Distribution**

This listing illustrates some of the current services provided by the Chancellor’s Office. Although it is extensive, it probably does not include every service currently offered. Further, it does not include governance functions associated with the functioning and support of the State Board of Higher Education or the leadership role of the office with respect to the seven universities. In the section labeled “Shared Services Enterprise,” it presupposes a single legal entity (either the Oregon University System/Oregon State Board of Higher Education or a new entity that is not a state agency).

The listing also does not assume that the Shared Services Entity (SSE) is always the only provider or procurer of a given service. On that score, it should be noted that the draft principles adopted on March 15, 2013, by the Oregon State Board of Higher Education’s Governance and Policy Committee presuppose that the Shared Services Entity would provide services whenever two or more universities found that to be advantageous. Obviously, if not all seven were to choose a given service those who did not do so could be alternate providers to the SSE.

The functions proposed for the State of Oregon Department of Postsecondary Education (DPSE) are exclusive and not within the province of either the SSE or the universities. Some of the functions of the SSE may prove to be exclusive, also, due either to the mandatory nature of some of the services or the fact that no university chooses to offer, conduct, or provide them.

In some cases (such as legislative relations and advocacy and international exchange programs), services already are provided both by the Chancellor’s Office and by the individual universities. This listing does not propose to change that except for any items in the category labeled “Shared Services Enterprise—Potential Expanded or New Services.”

The “Destination Unknown” category includes some items that may belong in either or both DPSE and SSE and either or both SSE and universities.

Finally, this listing does not include the services provided by one OUS university for one or more of the others. That means that services that are central to the current operations of OUS and its constituent universities (such as the Fifth Site and telecommunications) are not shown. These services must not be forgotten if and when a Shared Services Enterprise is constituted. They are more fully depicted in the main body of the Shared Services paper for which this listing serves as an exhibit.

### ***Department of Postsecondary Education***

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Community College and University Transfer  
Common Credit Requirements (Advanced Placement, International Baccalaureate, etc.)

Approval of High School Courses for College Credit  
Academic Program Approval  
Approval of Institutional Missions  
Distance Education State Authorization  
ATLAS and OSTX  
WICHE/WUE coordination and certification  
WICHE ICE course exchange  
Government to Government Cluster liaison  
“Managing student debt initiative”  
Veterans Reintegration Efforts  
Student record requirements (data element definitions, report requirements/formats/schedule)  
Financial records requirements (data element definitions, report requirements/formats/schedule)  
College Access Programs (GEAR UP, College Access Challenge Grant, etc.)  
Oregon Pre-engineering and Applied Science Initiative  
K-12 Robotics Programs  
Statewide publications (Counselor Handbook, Guide to Becoming a Teacher in Oregon, Reverse Transfer, etc.)  
Minority Teacher Education Program Efforts  
Other Programs Formerly Under Auspices of Joint Boards Articulation Commission

*Shared Services Enterprise—Currently Shared Services that might continue to be shared by two or more universities*

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Affirmative Action Reporting  
Reporting regarding policies on diversity, sexual harassment, and consensual relations  
Minority, Women and Emerging Small Business Enterprise Outreach, Reporting and Compliance  
Sole Source Contract Reporting and Compliance  
Transparency Oregon Act Reporting

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Internal audit (operational, compliance, financial, information technology, and investigative regarding state, federal and NCAA requirements and higher education enterprise best practices)  
Financial records and reporting (including aggregation)  
Fifth Site Oversight  
Banner Financial Information System and Human Resource Information System software management  
Unrelated Business Income Tax filing  
Accounting policies and procedures  
Monitoring of accounting records  
General Accounting  
Grant Accounting  
General Ledger

Financial Statement Preparation  
Coordination with state and external audits  
Fixed Asset Accounting  
Debt coverage calculation and debt policy reporting  
Travel rules and rates  
Negotiation of finance and administration rates (indirect cost recovery)

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Payroll Tax Withholding, deposits and reporting  
Payroll Regulatory Reporting (workers comp, Employment Division, COBRA subsidies)  
Centralized payments of vendors from payroll deductions

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Intellectual Property rules  
Legal services (advisory, litigation, contract template preparation, contract review, retention of outside counsel)

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Records Management and Archives  
Response to Public Records Requests

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Systemwide contracts for software licenses, travel card, procurement card, debt collection, hazardous waste, insurance brokers, etc.  
Cooperative purchasing agreements

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Student records and reporting (to feds, to media, to board, to state)  
Student Centralized Administrative Reporting File (SCARF)  
Enrollment forecasting  
Applications/Admissions Activity Tracking and Reporting

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Space utilization standards  
Capital project cost benchmarking  
Capital projects retainers for construction-related services  
Capital projects contract template development and maintenance  
Deferred maintenance, seismic safety, and sustainability planning and tracking

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Classified labor relations (bargaining, grievances, etc.)  
Classification/compensation for classified staff  
Leave policies (vacation, sick leave, etc.)

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Retirement benefits administration (PERS, Optional Retirement Plan, PERS Supplemental Plan, 403(b), 457, Early Retirement Incentive Programs, etc.)  
Health (Medical, Dental, Vision) benefits administration  
Employee Leave Rules and Associated Administration  
Other benefits administration

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Operating budget preparation/consolidation  
Operating budget presentation  
Managing budget allocation models (function may go, at least in part, to Department of Postsecondary Education (DPSE))  
Managing rule making for tuition setting  
Compliance with legislative tuition guidelines (significant calculation effort required)  
Operating budget management (to meet State Department of Administrative Services requirements)  
Provision of statewide and other data for national surveys

Work with state agencies on state initiatives (e.g., Oregon Health Authority for Medicaid waiver)

Capital planning

Capital budget preparation/consolidation

Capital budget presentation

Space Utilization Standards

Facilities Condition Assessment and Tracking of Deferred Maintenance Backlog

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Investment

Debt management

Maintenance of Tax Exempt Status for Bonds (most issues cover multiple campuses and projects)

Banking Services and Cash Management

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Risk Management

Property insurance

Casualty insurance

Specialty insurance

Workers compensation insurance

Legislative Relations/Analysis/Advocacy/Coordination and preparation of fiscal impact statements

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News and media relations

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International exchanges for students and faculty

Study abroad programs

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Viewbook Preparation

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### *Shared Services Enterprise—Potential Expanded or New Services*

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Shared degrees

Shared courses

Shared platform for course delivery

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Purchasing linked to accounts payable

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Information technology (expansion)

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Library materials acquisition and cataloging (expansion)

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Debt collection (including of student loans)

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Financial Aid Packaging

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Student Health Insurance

Student Health Services and Clinics

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Finance and Administration Cost Proposals for Grants

Research grant accounting

Research grant administration

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Library and information services (including materials acquisition and cataloging)

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*Destination Undecided*

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Student residency status

Minimum admissions standards

Staff and dependent enrollment fees at OUS universities

Property records

Academic Innovation Initiatives (currently includes Credit for Prior Learning, Massively On-Line Courses, Degree Qualifications Profile, reverse transfer, alignment with common core state standards, etc.)

Engineering Technology Industry Council

Linkages to industry/industry affairs

Academic personnel rules framework (faculty rank, sabbatical and other leave, promotion and tenure process, etc.)

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## **EXHIBIT 2: Suggested Statutory Provisions Related to Oregon Education Shared Services Enterprise**

What follows is a rough attempt from a lay person's view of some of the more important provisions needed in a statute establishing an education shared services enterprise and transferring to that enterprise some functions from the Oregon State Board of Higher Education.

**Section 1.** Findings: The Oregon Legislative Assembly is motivated by the goals established for the State of Oregon in ORS 351.006 and ORS 351.007 pertaining to the educational attainment of Oregonians (40-40-20) and the purposes of Oregon's public universities to educate Oregonians; provide high quality instruction; conduct research to advance the state, its citizens and its economy; and support vibrant communities throughout the state as well as the need to charge Oregon students prices as low as possible for enrollment and success in the state's public universities. The Legislative Assembly finds that sharing services among public universities and other education service providers can lead to lower costs of education, more non-state and non-tuition revenue to universities, and lower tuition charges to students while providing standard and consistent information and practices that facilitate student success and promote the achievement of the state's goals for higher education.

**Section 2.** There is hereby established a public corporation to be called the Oregon Education Shared Services Enterprise which shall provide such services to public universities as are not forbidden by statute and to such other education providers, including private not for profit universities based in Oregon, as shall choose to subscribe to such services in a manner permitted by law. This public corporation shall be a single legal entity comprised of its member public universities, which shall be deemed a part of that corporation. The Oregon Education Shared Services Enterprise shall be deemed to be a governmental entity. The public universities established in ORS 352 shall be components of that entity.

**Section 3.** The Oregon Education Shared Services Enterprise shall be governed and overseen by a board of directors comprised of the presidents of the public universities specified in ORS 352 and, upon election by the Board of Directors of the Oregon Health and Science University, the president of the Oregon Health Science University, and by three Oregon citizens nominated to be members of the Board by the Governor and confirmed in that role by the State Senate. One of the citizen members shall be elected by the Board members to serve as chair of the Board of Directors.

**Section 4.** The responsibilities vested in the Oregon State Board of Higher Education in ORS 351 with regard to the provision of services to the public universities are hereby transferred to the Board of Directors of the Oregon Education Shared Enterprise, including those pertaining to personnel, vehicles, legal counsel, financing agreements, risk management, collective bargaining, purchasing, affirmative action, equipment, recycling, investments, the utilization of

minority and women owned and emerging small business enterprises, the utilization of qualified rehabilitation facilities, accounting, student services, capital construction, management analysis, data systems, information technology, telecommunications, group insurance, building insurance, surplus property, planning assistance, vehicles, indemnity, indemnity for risk management, bonds, sales to federal and state government, revenue bonds, use of federal funds and donations, interstate agreements, cash management, financial reporting, legislative relations, payroll, and budgeting.

**Section 5.** The Oregon Education Shared Services Enterprise shall be deemed as part of the State of Oregon for purposes of tort claims.

**Section 6.** The Oregon Education Shared Services Enterprise shall be authorized to issue revenue bonds in its own name.

**Section 7.** The Oregon Education Shared Services Enterprise shall be authorized to request the State Treasurer to issue bonds on its behalf under provisions of Article XI of the Oregon Constitution to the extent authorized by the Legislative Assembly. For purposes of this section, the Oregon Education Shared Services Enterprise shall be considered as the same entity as the Oregon University System and its board the same as the State Board of Higher Education.

**Section 8.** The Oregon Education Shared Services Enterprise may acquire and hold real and personal property in the name of the citizens of the State of Oregon.

**Section 9.** The Board of Directors of the Oregon Education Shared Services Enterprise shall commence work upon the confirmation of its citizen members but no later than October 1, 2013. The Board may hire and compensate a president and a secretary to the board, who shall serve at the pleasure of the board.

**Section 10.** The president of the Oregon Education Shared Services Enterprise shall retain such employees and such contract assistance as shall be necessary to carry out the functions of the enterprise.

**Section 11.** The president and secretary and such other employees as shall be retained by the president shall have the same status as do employees of the public universities established in ORS 352. However, no employee of the Oregon Education Shared Services Enterprise shall be granted tenure by the Enterprise.

**Section 12.** The Oregon Education Shared Services Enterprise will commence operations on July 1, 2014. At the discretion of the State Board of Higher Education and of the Board of Directors of the Oregon Education Shared Services Enterprise, employees of the Oregon University System may be transferred to the enterprise. Planning, rate setting, procurement, and other necessary activities may commence prior to July 1, 2014, if so authorized by the Board of Directors of the Oregon Education Shared Services Enterprise. This shall include the hiring and compensation of the president, secretary, and other necessary employees of the Enterprise.



**Section 13.** All contracts relating to the services listed in section 6 of this act shall be transferred from the Oregon State Board of Higher Education to the Board of Directors of the Oregon Education Shared Services Enterprise, effective July 1, 2014. All services transferred in accordance with this section will be offered by the Oregon Education Shared Services Enterprise to all public universities who are members of the enterprise. No member university may give notice of withdrawal from any service prior to July 1, 2014. Any notice of withdrawal shall be of at least twelve months length.

**Section 14.** The Oregon Education Shared Services Enterprise shall be permitted to conduct any work or provide any services to its members and to other education entities as its board shall direct or as shall be desired by its members or customers and which it is not expressly forbidden by statute to conduct or provide.

**Section 15.** The Oregon Education Shared Services Enterprise shall be permitted to purchase or contract for any services it provides, to charge its customers appropriate and sufficient rates and amounts for provision of such services, and to develop such rules, procedures, and processes as it deems necessary or desirable for the efficient conduct of its affairs.

**Section 16.** The State Board of Higher Education shall transfer to the Board of Directors of the Oregon Education Shared Services Enterprise on July 1, 2014, such funds and balances as are available to the State Board of Higher Education. The amount of such funds and balances to be so transferred shall be determined by the Oregon Legislative Assembly during its 2014 session.

**Section 17.** The State Board of Higher Education will enter into agreements with the Board of Directors of the Oregon Education Shared Services Enterprise to provide financial support to the Enterprise and its planning, rate setting, procurement and other activities conducted prior to July 1, 2014. The State Board of Higher Education also may appoint an interim president for the Oregon Education Shared Services Enterprise in order that work may commence prior to the empaneling of the Board of Directors of that Enterprise.

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Office of the Chancellor  
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## Shared Services Enterprise Principles

### **PREAMBLE**

The Shared Services Enterprise exists as a means to advance the goals of the State Board of Higher Education to increase the number of Oregonians with degrees, to provide high quality education to students, to undertake innovative research to advance Oregon and Oregon's economic well-being, and to support and sustain vibrant communities throughout the state. It is a means of improving education service and reducing cost. Its primary motivator is to keep tuition for Oregon students as low as possible. The Shared Services Enterprise also may extend its services beyond its public university members to other entities within Oregon education.

### **PRINCIPLES**

1. Standardization of information, processes and functions is critical to cost-effective operations and to providing the lowest cost at any specified quality level.
2. The Shared Services Enterprise should implement best practices in each service area and focus on lowest cost for the quality of the service desired. Dimensions of quality include timeliness and ease of accessing services.
3. The Shared Services Enterprise shall be overseen by a board composed of the presidents of its public university members or their designees plus two or three public members appointed by the governor and confirmed by the state senate.
4. Each of its major service areas also should be advised by groups of its members and the Shared Services Enterprise should enter into service level agreements with customers that specify levels of quality and cost.
5. Some services may be mandatory for all members, but only to the extent necessary to satisfy legal requirements.
6. An institution that proposes not to continue using a service that was shared prior to the establishment of the Shared Services Enterprise, or which was shared thereafter within the Shared Services Enterprise, must provide the Shared Services Enterprise and each of its member universities with a reasonable and adequate advance written notice of withdrawal, such notice being of sufficient length for the Shared Services Enterprise and its members to assess the impact of such a withdrawal and make appropriate adjustments to operations, rates and practices to permit the enterprise and its members to continue effective operations.
7. The Shared Services Enterprise is considered to be an ongoing entity and it and its participants must take a long view of its operations so that it can make appropriate investments in technology, systems, and other long-lived assets or practices in order to provide high quality, timely, and cost effective services. Such

investments may affect how long each university must participate in any service in which it shares.

8. Inclusion of a service within the Shared Services Enterprise does not determine who will provide that service.
9. In addition to the shared services it offers or facilitates, the Shared Services Enterprise may provide a convening function to allow discussions about topics of mutual interest to members and the sharing of best practices in matters not part of the Shared Services Enterprise's suite of services.
10. The Board of the Shared Services Enterprise will meet at least twice each year in order to plan for the enterprise, assess the quality and effectiveness of its services, explore new opportunities for sharing, evaluate senior staff, receive and adopt financial reports and budgets, receive and discuss audit reports, and conduct such other business as shall be necessary or desirable.
11. The Shared Services Enterprise will not be a state agency.
12. The existence of a Shared Services Enterprise shall not impinge on the ability of any university to offer services to other universities on a shared basis.

#### **DOCUMENT HISTORY**

- Approved by the State Board of Higher Education, Meeting #865, April 5, 2013