FISCAL IMPACT OF PROPOSED LEGISLATION **Measure: SB 270 - A**

Seventy-Seventh Oregon Legislative Assembly – 2013 Regular Session
Legislative Fiscal Office

Only Impacts on Original or Engrossed Versions are Considered Official

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Reviewed by: Paul Siebert, John Borden, Doug Wilson
Date: 05/16/2013

Measure Description:
Establishes institutional boards for University of Oregon and Portland State University.

Government Unit(s) Affected:
Oregon University System (OUS), Employment Relations Board, Higher Education Coordinating Commission

Summary of Expenditure Impact:
See Analysis.

Local Government Mandate:
This bill does not affect local governments' service levels or shared revenues sufficient to trigger Section 15, Article XI of the Oregon Constitution.

Analysis:
This bill establishes institutional boards for the University of Oregon (UO) and Portland State University (PSU) separate from the Oregon University System (OUS) and vests these boards with specific duties and rights. Allows UO and PSU to use all, some, or none of the shared services offered by OUS. Establishes a timeframes for Oregon State University may elect to establish an institutional board. The bill also provides a methodology by which other universities may establish institutional boards. Establishes the Special Committee on Regional and Technical Universities and the Work Group on University Shared Services. In addition, the bill allows the institutional boards to issue revenue bonds.

In addition to the support of the Board, the primary drivers for the fiscal impact to UO and PSU would be to what extent the universities use the shared services offered by OUS. The following is a list of the shared services currently performed by the Chancellor's Office (CO):

- Accounting and Reporting
- External and Internal Audits
- Financial Services
- Legal Affairs
- Payroll and Labor Relations
- Employee Benefits
- Treasury and Banking including daily operations and Bond Issuance and Debt Service
- Student Building Fees and Associated Debt Service
- Interest Earnings
- Administrative Systems Management
- Risk Management
- Purchasing and Contracting
- Institutional Research
- Legislative Relations
- Public Relations
- Coordination with other educational entities
- PEBB

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77th OREGON LEGISLATIVE ASSEMBLY – 2013 Regular Session **MEASURE: SB 270** A
STAFF MEASURE SUMMARY **CARRIER:**
Senate Committee on Education & Workforce Development

REVENUE: Revenue statement issued
FISCAL: Fiscal statement issued

Action:		Do Pass as Amended and Be Printed Engrossed and Be Referred to the Committee on Ways and Means
Vote:		5 - 0 - 0
	Yeas:	Beyer, Knopp, Kruse, Roblan, Hass
	Nays:	0
	Exc.:	0
Prepared By:		Richard Donovan, Administrator
Meeting Dates:		2/7, 2/28, 3/5, 3/7, 3/21, 3/28, 4/11, 4/18

WHAT THE MEASURE DOES: Establishes institutional boards for University of Oregon and Portland State University. Establishes timeframe in which Oregon State University may elect to establish institutional board. Vests institutional boards with specified duties and rights. Details composition requirements of institutional boards. Establishes process by which other universities in Oregon University System may similarly establish institutional boards. Allows universities with an institutional board to issue revenue bonds. Establishes Special Committee on Regional and Technical Universities. Establishes Work Group on University Shared Services. Declares emergency, effective on passage.

ISSUES DISCUSSED:

- Findings of the interim committee on University Governance as strong guidelines for SB 270
- Process for universities that choose to have an individual board, or choose not to have an individual board
- State-wide integration; effective and efficient for all public universities, regardless of location
- Board selection process, composition of board members
- Funding process currently, projected process with multiple separate universities
- OHSU history since 1995 legislation that enabled OHSU independent board
- Ability of a university with an institutional board to issue various types of bonds
- Task Force for “Fab Four” schools (Eastern, Western, Southern Universities; Oregon Institute of Technology)
- Special Committee to be focused on creating new best processes and business practices

EFFECT OF COMMITTEE AMENDMENT: Replaces the measure.

BACKGROUND: Senate Bill 242 (2011) redefined the Oregon University System (OUS) as a public university system. House Bill 4061 (2012) created the Joint Special Committee on University Governance (the Committee). The Committee was tasked with reviewing, analyzing, and discussing, “issues surrounding governance within the higher education system including establishment of institutional boards for Oregon’s public universities.” The Committee met ten times between April and September of 2012, and on October 4, 2012 voted unanimously to forward its recommendations as represented in legislative concept draft (LC 759, dated 10/4/12) for consideration by the 2013 Legislative Assembly. Senate Bill 270-A reflects these recommendations.

OUS has developed estimates for a university that elects to provide, internally, the shared services that OUS currently provides all universities in the system. OUS outlined two different scenarios in which in scenario #1 it is assumed that the university provides board support and continues with all shared services. Scenario #2 assumes board support and discontinuing all shared services and providing these services internally. Each scenario has a high a low estimate of the costs. In addition, OUS calculated the fiscal impact to the CO's office.

	Scenario #1 - Institutions with Local Governing Board Continue All Shared Services (amounts per campus)		**Scenario #2 - Institutions with Local Governing Board Discontinue All Shared Services (amounts per campus)**		**Effect on Other Campuses/Chancellor's Office**	
Annual fiscal impacts per campus to an Institution with a local governing board	**Low**	**High**	**Low**	**High**	**Scenario #1**	**Scenario #2**
Total per Campus	$1,190,000	$2,610,000	$3,065,000	$5,860,000	($157,000)	($823,666)

In addition to the above costs, if the universities (UO, OSU, and PSU) were to opt out of PEBB there would be additional costs to the OUS of approximately $4.9 million per year that would have to be absorbed by the other campuses and the loss of assessments on non-general education activities like auxiliary and sports revenues paid by these universities would decrease support to the CO by $3.2 million per year. OUS estimates that the total costs to UO and PSU under scenario #1 would be between $2.0 and $4.9 million and under scenario #2 between $4.9 and $10.5 million per year. If OSU chooses to become an individual board the costs in scenario #1 would be between $3.1 and $7.4 million and under scenario #2 between $5.0 and $13.4 million.

The following estimates have been provided by the universities for scenario #2, the discontinuation of all shared services.

	Low Estimate	High Estimate
OSU	$789,150	$6,957,325
UO	$254,000	$2,073,500
PSU	-	$ 341,600

PSU's estimate assumes Board support and the addition of one internal auditor. PSU reports that accounting and financial reporting, legal, budget office, capital, payroll and labor, employee benefits, administrative services management, purchasing and contracting, institutional research, legislative relations, public relations and coordination with other entities currently exist within PSU and any additional requirements can be absorbed within current operations, assuming that PSU receives $3 million in General Fund currently supporting Chancellor Office operations. PSU would use the external audit, treasury and banking operations, and risk management shared services and these services would not exceed the current cost structure.

It is not clear if the UO estimate assumes that legal, budget office, capital, payroll and labor, administrative systems management, institutional research, legislative relations, public relations and coordination with other entities would be procured through shared services or absorbed with current resources. The OSU estimate assumes all services procured through the shared services model would be provided by OSU and would require additional resources and positions.

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These estimates may vary depending upon the staffing levels and sophistication of the universities establishing their own institutional boards. The estimates are based on the CO's current practice and structure. For example, with respect to Payroll and Labor Relations, OUS estimates that if could cost a university between $175,000 and $200,000 per year (1.50 to 2.00 FTE) to provide payroll for their institutions. It is assumed that the university would use the current payroll system and would not procure or develop a separate payroll system. If the university chooses to a different pay frequency, payroll calendar or benefit types, it may be necessary to have a standalone system as they diverge from the current system. If the university chose to continue the shared services model, the CO's office would still need additional resources for the additional administrative oversight, recordkeeping, and required payroll updates.

This bill would also exempt a university with an independent governing board from Chapter 240, State Personnel Relations, which provides for the administrative expenses and costs of operation for the Employment Relations Board (ERB). Approximately one-half of the cost of operating the Employment Relations Board (ERB) is funded through a monthly per employee assessment on state agencies, including OUS. General Fund and a limited amount of fees pay for the remaining cost of the agency. This bill would exempt a university with an independent governing board from paying the state agency assessment under ORS 240.167; however, ERB would still be required to provide services to such a university. Therefore, the cost would become a General Fund expense. ERB would require approximately $100,000 General Fund for the second year of the 2013-15 biennium to replace the lost revenue from OUS and approximately $200,000 General Fund for the 2015-17 biennium.

SB 270-A adds responsibilities for the Higher Education Coordinating Commission (HECC). Upon the request of Eastern Oregon University, Oregon Institute of Technology, Southern Oregon University or Western Oregon University, HECC is required to determine if they have the capacity and demand to be governed by an independent board and provide recommendations to the Legislative Assembly. In addition, HECC will perform a number of other duties including the following with respect to the provisions of this bill:

- Report annually to the Legislature on the universities with independent boards' progress on achievement compacts signed with the Oregon Education Investment Board (OEIB).
- Approve universities mission statements, all academic programs and significant changes to academic programs, and allocations among institutions.
- Submit a biennial funding request to the Governor after receiving requests from universities and the State Board of Higher Education.
- Distribute appropriations made by the Legislature.
- Approve increases in tuition and mandatory enrollment fees in excess of five percent if requested by the universities. The universities may also request approval from the Legislature.
- Enter into a performance compact with the state in exchange for state appropriations.
- Report biennially on capital construction projects.
- Monitor, along with the State Board of Education, compliance with discrimination statues and withhold funding from a university that is deemed out of compliance.

The Executive Branch submitted a fiscal impact to HECC for this bill of approximately $3.1 million General Fund, 15 positions (11.50 FTE) in the 2013-15 biennium and $4.4 million, 15 positions (15.00 FTE) in the 2015-17 biennium. This estimate includes the impact of this bill as well as the existing responsibilities of HECC as outlined in law. Currently, HECC does not have a budget for the responsibilities currently in law.

The 15 positions include a higher level executive or agency head (PEM H based on an annual salary of $200,000), and a support staff position for 24 months. The remaining staff would start three to six months into the biennium (funded for 18 to 21 months). These other staff positions include an Operations manager (PEM F), seven policy and research related staff (Fiscal Analyst 3, Ops/Policy Analyst 4, and Education Program Specialist 2), further support staff, and positions to support agency

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operations (accountant and Information Systems staff). The estimate also includes resources for the costs of the 15 Commission members as well as the general costs for establishing a "stand-alone" agency.

This estimate also corresponds to the Executive's Branch's fiscal impact for HB 3120 where there are a number of similar responsibilities added for HECC. Regardless, this estimated impact is higher than it should be for this bill exclusive of the existing HECC responsibilities and those included in HB 3120. There currently is no 2013-15 budget for HECC even given the responsibilities included in current law. It should be noted that the Governor's budget includes $1.7 million General Fund for HECC and the OUS Chancellor's Office budget was reduced by $1.6 million tied to policy related activities.

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