MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Regent Legislative Program
Date: January 6, 2003

Recommended Actions:

1. Actively participate with business and government leaders to fashion a coordinated economic development initiative to enhance existing successful Regent economic development programs and to create new and additional opportunities to grow Iowa's economy.

2. Request that the Legislative and Executive Branches renew their financial commitment to the universities for economic development activities for the benefit of the state.

3. Oppose the inclusion of the Regent institutions in the Program Elimination Commission recommendation on State Government Administrative Services.

4. Reaffirm the earlier Regent Legislative Program issues and budget recommendations contained in Attachment A.

Executive Summary:

Legislative Session

The 2003 Session of the Iowa General Assembly is scheduled to convene on Monday, January 13, 2003. The Governor is scheduled to present his Condition of the State address on Tuesday, January 14, 2003. An oral report will be provided to the Board regarding the Governor’s address.

It is anticipated that the Governor will announce his budget recommendations for the state at end of January.

A monthly update of legislative activity relevant to the Regent institutions will be provided to the Board during the session.

Economic Development Activities

The Annual Report on Economic Development and Technology Transfer, G.D. 1, highlights the Regent universities’ economic enhancement activities. The Regent universities provide expertise, services and support in economic development that no other institutions can offer. By creating knowledge, developing its practical application, and building relationships among academic, public and private entities, the universities play an integral role in invigorating Iowa’s economy.

The Board of Regents should actively pursue a coordinated economic development effort to promote current programs and build support for expanded activities. As part of this initiative, the universities and Board Office should work closely with business and government leaders to enhance existing successful Regent economic development programs and create new and additional opportunities to help grow Iowa’s economy.
In recognition of the significant budget reductions to the universities' economic development programs, the universities and the Board Office should explore options for securing additional funds to effectively operate economic development programs.

The Board of Regents has considerable concerns with the Commission's inclusion of the Regent enterprise in its State Government Administrative Services recommendation. The proposal authorizes the Department of Management to determine how all Executive branch agency administrative services, including those of the Regent institutions, shall be delivered.

The specific issues with the recommendation can be summarized in the following three categories:

1. The Board of Regents currently operates it complex enterprise efficiently and effectively, as verified by external evaluations.
2. The proposal would be extremely costly to implement.
3. The ongoing costs and inefficiencies from such a system would be significant.

The Commission recommendation would burden both the state and the Regent institutions with excessive costs in an already challenging fiscal environment. Just the initial costs to implement such an administrative system that would include the Regent institutions could total hundreds of millions of dollars and would exceed the minimal benefits implied in the proposal.

**Background/Analysis:**

Prior Board Action At its November 2002 meeting, the Board (details in Attachment A):

- Reaffirmed the Regent appropriations requests for operations, including salaries, and capitals.
- Encouraged the Board Office and the institutions to work in partnership with others to enhance Iowa's economic growth, homeland security, and national reputation for educational excellence.
- Authorized the Board Office and the legislative liaisons to actively pursue regulatory relief and seek modifications to other statutory sections.
- Gave UNI permission to seek specified funding through other state entities.
Economic Development Activities

The Regent universities are a critical and comprehensive resource for Iowa, its economy, and its future. While each institution has a unique mission, strengths and resources, all three generate knowledge through the intellectual and technical expertise of their faculty, staff and students.

They spur economic advancement statewide through this knowledge as well as its practical application, development of new technologies, and relationships with public and private sectors. They also provide outreach services to new entrepreneurs, small businesses and major industries in all 99 counties at no or very reasonable cost.

These important activities are threatened, however, by recent significant reductions in state funding for the universities’ economic development programs. Their budgets were reduced by approximately 12% in FY 2002 and almost 60% in FY 2003.

Underfunding these programs may jeopardize the universities’ ability to attract large federal and industry grants and contracts, and also will result in minimized services, increased fees, delays in technology development, and reductions in cooperative partnerships. Inadequate financial support by the state will inhibit Iowa’s ability to retain businesses in the state and attract new ones.

The Regent universities’ economic development programs provide an outstanding return on state investment. During FY 2002, the universities received a record $587.1 million in gifts, grants and contracts from federal agencies, corporations and other entities outside of the state.

The universities also provide services to entrepreneurs and small businesses that otherwise might be unavailable or too expensive.

The universities generate intellectual property that directly enhances economic development and creates a rich environment for further progress.

All of these activities spur economic activity in the creation of new businesses, new technologies and new higher-paying jobs statewide. The Regent universities and the Board of Regents Office will seek increased collaboration with government and business leaders to further leverage non-state resources and reinvigorate Iowa’s economy for long-term benefit.

Program Elimination Commission

The Program Elimination Commission, a legislatively established interim committee, issued its final report on December 31, 2002. The Commission was charged with identifying a two percent savings for the general fund of the state. The recommendations were to be prepared in the form of a bill.

The first recommendation of the Commission, regarding State Government Administrative Services, authorizes the Department of Management to determine how all Executive branch agencies, including the Regent institutions, shall be delivered. These services include printing, human resources, fringe benefits, payroll, financial accounting property management, fleet management, and purchasing.
The Commission's recommendation, which is intended to override any Iowa Code or Iowa Administrative Code language, would effectively eliminate the Board of Regents administrative authority over the institutions.

On December 6, 2002, a letter was sent from the Board Office opposing the inclusion of the Regent institutions in the Program Elimination Commission recommendation. The letter included a white paper that outlined the specific issues with the proposal that would be devastating for both the state and the Board of Regents.

A copy of the letter and the white paper are included in Attachment B.
Approved Regent Legislative Program

REGENT APPROPRIATIONS REQUESTS

Operating Appropriations Request

Full funding of salary increases from state appropriations continues to be the first priority of the Board and its institutions.

The state utilized non-recurring non-general fund sources (Regent demutualization proceeds) to fund the FY 2003 salary increases. Although the FY 2003 incremental salary appropriation for the Board of Regents was $25 million, it considerably under funded the amount needed to implement the state’s policy for salary increases.

If this salary funding were not continued for FY 2004, it would represent another budget reduction in addition to the $124 million of appropriations reductions over the past two fiscal years.

The salary requests for appropriations contain the following two components:

- **Continuation of FY 2003 Incremental Salary Funding** - $25 million
- **Full Funding of Incremental FY 2004 Salary Funding** - an amount has not yet been determined pending the setting of state salary policy during collective bargaining negotiations.

Strategic Investments - In recognition of the limited revenues projected for the state, the incremental FY 2004 appropriations requests for the educational/programmatic initiatives were limited to $11.5 million, far short of actual needs.

The FY 2005 appropriations requests of $38.65 million, however, reinforce the Board’s expectation for state support of higher education so that future increases in tuition costs to the students and their families can be moderated, without compromising the quality of education further.

These additional appropriations, not intended to replace funds already cut, would be used to build program quality, implement academic enhancements, and account for inflation pursuant to the Board’s new 2004-2008 strategic plan, which has yet to be developed.

The requested funding levels are a notable amount; however, even if both FY 2004 and FY 2005 requests were approved, state support would still be below the appropriations level the Board received for FY 2001 and the beginning of FY 2002.
Reduction of fire and environmental safety deficiencies and deferred maintenance has been a high priority of the Board of Regents for a number of years. Due to the FY 2002 and FY 2003 state operating appropriations budget reductions and the institutional reductions in funding for the budget line – building repair, the Board approved as its top capital appropriations requests for FY2004 – funding for the correction of fire and environmental safety deficiencies and deferred maintenance.

The Board also approved a request for five other major capital renovation and remodeling projects for the universities campuses in FY 2004.

Tuition replacement appropriations represent an ongoing commitment of the state to meet the debt service cost of Academic Building Revenue Bonds. The Board approved a tuition replacement appropriations request of $23,953,459 for FY 2004 with the understanding that debt service needs will be reassessed by November 15, 2002, as required by statute.

**REGENT NON-APPROPRIATIONS LEGISLATIVE PROGRAM**

**Partnerships**

In recognition of the significant budget reductions to the universities' economic development programs, it is recommended that the universities, working with the Board Office, be authorized to explore options for securing additional funds to effectively operate these economic development programs.

In January, the Board will receive the Technology Transfer and Economic Development Governance Report that will highlight the activities of the institutional economic programs and how critical they are to the fabric of the institutional strategies for invigorating Iowa's economy.

In conjunction with that report, a coordinated economic development legislative initiative will be established to stress the importance and effectiveness of these programs for the state of Iowa.

Plans are to present information to the Board at its January meeting that include developing partnerships for enhancing areas of Iowa's economic growth, homeland security, and national reputation for educational excellence.
Statutory Language Changes

Efficiencies
As stewards of public resources, the Board of Regents has a responsibility to be as efficient and productive as possible with taxpayers' and students' dollars. Currently, several statutory provisions prohibit the Board and its institutions from operating in a more efficient manner.

The Board Office and the legislative liaisons should be authorized to actively pursue those areas that will provide the greatest tangible benefit to the Regents, the state of Iowa, and its citizens.

Independent Agency Status
The MGT study, presented at the October Board meeting, suggested that the Board be proactive in seeking legislative changes for regulatory relief.

MGT argues that the multiple missions of the Regent institutions and declines in state funding over the years suggests a new status that will allow the institutions to better leverage resources. Like business enterprises, the institutions must compete to generate large amounts of revenues, manage costs, and be highly flexible to respond quickly to market forces.

The MGT study identified specific areas for regulatory relief, such as competitively bidding for a variety of services in the private sector. The benefits from such regulatory relief would include stimulating economic growth in the private sector while also reducing the size of state government.

MGT concluded that a more comprehensive regulatory strategy was needed to address the benefits that would come from no longer regarding the Regent institutions as “state agencies” but rather as an “independent agency,” similar to other higher education entities. Such designation would still mean that the institutions would operate for the benefit of the state while being reliant on the state funding.

The goal of “independent” status is to provide the Regent institutions with the additional flexibility they need to operate in the most efficient and effective way possible in a highly competitive market.
Adoption of a series of items are expected to move the Board of Regents and its institutions closer to an "independent agency" status similar to other higher education entities.

- **Add needed language:** Language is needed to allow the Board and UNI to spend a portion of bond proceeds, increase tonnage fees for the UNI Waste Reduction Center, and to delete statutory language that had become obsolete.

- **Correct current language:** Current legislative language restricts UNI from spending approximately $1.4 million of proceeds from the 2002 academic building refunding to improve, remodel, or repair buildings or other infrastructure. The language needs to be corrected to allow the Board and UNI permission to utilize that portion of the proceeds.

- **Delete obsolete language:** In its annual audit of Iowa State University, the State Auditor identified three obsolete statutory provisions:
  
  - **Hazardous Waste Research Program – Iowa Code §266.8** identifies a hazardous waste technical research and assistance program at Iowa State with a Center for Industrial Research and Service. The Center no longer exists.

  - **Hog-Cholera Serum Laboratory – Iowa Code §266.24** authorizes the Board to maintain a laboratory for the manufacture and distribution of hog-cholera serum, toxins, vaccines, and biological products. The laboratory no longer exists.

  - **Livestock Producers Assistance Program – Iowa Code 266.39D** identifies a livestock producers assistance program to provide on-site assistance to persons involved in livestock production. The program no longer exists.

The Board Office staff and the institutions will work together to identify other areas of obsolete code language, such as state funding mechanisms of Regent laboratory schools, and take appropriate action to correct the Iowa Code.
Special Funding Requests for FY 2004

Special Funding Requests (UNI)
The University of Northern Iowa, as in previous years, has requested Board approval to continue efforts to secure FY 2004 special funding through other state agencies for UNI programs as identified below:

- Ag-Based Industrial Lubricants (ABIL) Program $225,000
- Iowa Waste Reduction Center Increase 10¢/ton
- Geography Alliance of Iowa 250,000
- Iowa Mathematics & Science Coalition 50,000
- 21st Century Learning Initiative 2,000,000

ABIL (Ag-Based Industrial Lubricants)
The ABIL program introduced the first soybean-based hydraulic fluid licensed for marketing and has other products under development.

The Iowa Department of Economic Development has provided program funding for the past six years to support UNI staff, equipment, building rental, and other expenses related to the Waverly facility which houses the program.

Current year funding of $150,000 was reduced from FY 2002 funding of $258,500. UNI is requesting authorization to seek funding of $225,000 through the Department of Economic Development to maintain and support personnel expertise, material utilization, publication expense, and additional equipment.

Waste Reduction Center (UNI)
The Iowa Waste Reduction Center was created by the Groundwater Protection Act and provides assistance to small businesses in the safe and economic management of hazardous waste. Funding is derived from fees collected by landfills.

The state has established a 50% waste reduction goal, which will decrease the volume of waste, thereby reducing the fees generated.

Decreases in revenues to the Center will impact service levels to small businesses where there is a growing need for “second step” waste reduction assistance, and will negatively affect the Center’s ability to secure matching funds. To date, the Center has secured a match for every state dollar.

The University wants to again seek legislation to increase the allocation of fees to the Center equivalent to 10 cents/ton.

Geography Alliance of Iowa
The Geographic Alliance of Iowa (GAI), housed at the University of Northern Iowa, was established in 1991 with the support of the National Geographic Society (NGS). From FY 1993 to FY 2001, the state of Iowa matched the $50,000 per year funding provided by the NGS.

The GAI is composed of K-12 teachers, professors, personnel from a variety of other educational endeavors, and citizens, all of whom are concerned with improving geographic instruction in Iowa. The GAI provides pre-service and in-service programs to stimulate interest in teaching geography and its integration across the curriculum.

Legislation enacted by the 2001 General Assembly eliminated funding for the GAI. The University proposes to seek funding through the Iowa Department of Education for the GAI to be matched by the National Geographic Foundation.
| Iowa Mathematics & Science Coalition | The Iowa Mathematics and Science Coalition (IMSC), housed at the University of Northern Iowa, is an alliance of leaders from business and industry, education, and public policy working to reform mathematics and science education in the state of Iowa. The IMSC is the only curriculum coalition in the state that actively supports the State’s school improvement efforts. The Coalition also serves as a professional development resource for teachers through its annual Governor’s Institute on Mathematics and Science Reform. UNI requests to seek funding of $50,000 through the Iowa Department of Education. |
| 21st Century Learning Initiative | During the 2001 legislative session, the Technology Appropriations bill included a $1.5 million allocation to the University of Northern Iowa for continued development of a 21st Century Learning Infrastructure Initiative. Funding for the initiative was suspended in the 2002 legislative session. The initiative provides an infrastructure for the delivery of digital content to the students and citizens of the State of Iowa. UNI requests to seek funding of $2 million through the Information Technology Department. |
MEMORANDUM

To: Members of the Program Elimination Commission

From: Gregory S. Nichols

Subject: Unified Authority Proposal

Date: December 6, 2002

We would like to take this opportunity to articulate our significant concerns regarding the inclusion of the Regent institutions in the Unified Authority proposal presented to the Program Elimination Commission.

We believe that a mandate to include the Regent institutions within such an authority would burden both the state and the Regent institutions with considerable excessive costs in an already challenging fiscal environment. Just the initial costs to implement the system contemplated in the proposal could total hundreds of millions of dollars, which would exceed the benefits implied in the proposal. Because of the volume and complexity of the Regent institutional systems, a central state system would have to add many new state employees and extensively upgrade computer systems to handle the increased workload. The costs of fully integrating a new state system with all of the other existing institutional systems would be prohibitive. A new state system would also include ongoing extraordinary costs and inefficiencies for both the state and the Regent campuses.

The Board of Regents takes its governance responsibility very seriously. Through the Regent governance process, the management and administrative processes of its institutions have been repeatedly reviewed and continually improved. The Regent institutions currently have leading edge, fully automated and integrated systems and best practices in place. Regent practices have served as models for other state agencies and other institutions. The feasibility of successfully implementing the proposal is questionable and puts at risk the effective governance and management structures of a highly effective and efficient enterprise whose missions are vastly different than other state governmental units. In addition, the proposal would infringe upon the statutory governance authority of the Board of Regents.

The Board understands and respects the challenges that the Commission faces. The attached white paper outlines specific issues with the proposal that we believe would be devastating for both the state and the Board of Regents.

I hope that this information is helpful. We would be happy to provide further information or answer any questions that you may have.
The Board of Regents has considerable concerns with the unified authority proposal. This white paper outlines the specific issues with the proposal which can be summarized in the following three categories:

1. The Board of Regents currently operates it complex enterprise efficiently and effectively, as verified by external evaluations.

2. The proposal would be extremely costly to implement.

3. The ongoing costs and inefficiencies from such a system would be significant.

**REGENT ENTERPRISE**

The Board of Regents governs five high-quality institutions — the three state universities: the State University of Iowa, Iowa State University, and the University of Northern Iowa; and the two special K-12 schools: the Iowa School for the Deaf, and the Iowa Braille and Sight Saving School.

The Board takes its role very seriously and strives to be an exemplary model of governance and stewardship, holding its institutions and itself to extremely high standards for the benefit of students, staff and the citizens of Iowa. The legislative and executive branches have long supported the Board's governance structure because of the unique nature and missions of these educational institutions.

The Board challenges its institutions to become the best enterprise of public education in the United States through outstanding teaching, research and service programs.

**Accountability**

The Board of Regents acts on a wide variety of academic, fiscal, legal, and governance issues at its public meetings. Materials for these meetings are widely distributed and available on the Board's website at www2.state.is.us/regents/.

The Board of Regents views strategic planning as essential to effective governance of the institutions. It initiated long-range strategic planning in 1987 and expanded on its planning by developing action steps and performance measures to ensure that the strategies effectively met the objectives of the plan. Legislation for accountable government was enacted during the 2001 session that acknowledged the Board of Regents accomplishments in this area.

The Board also submits a wide variety of reports to state government on a monthly basis, such as employee headcount, salary expenditures, and revenues and expenditures.

**Best Practices**

Not only do the Regent institutions utilize best practices in their operations, but the three Regent universities also educate our state's businesses and industries, as well as state and local governments and communities, in best practices techniques.

The universities have helped state government implement numerous best practice models such as a grants management system, procurement improvements, and establishment of property management procedures.

The Regent institutions currently have in place highly sophisticated and integrated enterprise-wide technology systems. Many of these are web-based and paperless. The continual upgrade and advancements of the Regents systems have attributed to the institutions' very lean operations, which have a span of control that averages 13 staff to 1 supervisor.
Over the last 15 years, the Board of Regents has undertaken various management studies to help ensure efficiency and effectiveness of its enterprise. Most recently, the Board, with the assistance of MGT of America, a well-respected national public sector consulting firm, conduct an organizational review to determine how well-structured and efficient the Board and its institutions are through a comprehensive assessment of the programs, services and administrative operations.

Our institutions are the benchmark for other public universities and have been in the forefront of cutting or bleeding edge technology in such ventures as the Internet and Internet 2.

**Complexity**

The Regent institutions are larger in terms of budgets, employees, and facilities than other state agencies. The majority of the funding sources for the Regent institutions are non-state resources.

The institutions are more complex in the numerous activities performed, which include providing education, conducting research, housing and supporting students, providing extension and other public services, and stimulating economic development.

The Regent institutions serve more than 71,500 students on a daily basis during the academic year and more than 3,700 hospital patients daily at the University of Iowa Hospitals and Clinics (UIHC). More than 3,000 people per day participate in educational opportunities offered by Iowa State University Extension.

There are numerous stand-alone enterprises that operate with a variety of funding sources. Some examples include UIHC, utilities, residence systems, field houses, telecommunications, bookstores, and student health services. Hundreds of world-class faculty, doctors, researchers and others also come to the universities to work, learn and serve Iowans.

**Outside Consultant’s Comments**

MGT of America, during its organizational review of the Regent enterprise mentioned above, made a recommendation that directly contradicts the Program Elimination Commission proposal to encompass the Regents within a state Unified Authority. MGT states the following in its final report to the Board in October 2002:

Unlike the typical state agency, the Regent universities are able to leverage the state investment into a much larger pool of resources that benefit Iowa citizens.

Unlike more typical state agencies, however, universities are required by their missions of teaching, research, and service to carry out extremely broad and varied areas of operations seldom found to the same scale within the operating mission of any other state agency.

Although some other state agencies also have such “feed, house, and protect” responsibilities, none come close to operating at the magnitude of the three universities.

The typical state agency does not have to generate the magnitude of annual revenues from non-state sources in a highly competitive market that the universities must attract in order to survive.

The Board of Regents has repeatedly demonstrated its capacity to provide effective state oversight for the Regent institutions. Over the years, the Regents have been noted for their: strong governance, leadership among state agencies in strategic planning and performance measurement, process for open decision-making, extensive policies and procedures that were developed in public work sessions, and commitment to public reporting. In short, the Regents have earned the confidence of other state officials for their ability to function as a successful business while part of state government.
In 1997, a Governor's Blue Ribbon Task Force on Transportation hired industry expert David D. 2 Griffith and Associates to study fleet operations of the Regent, DOT, and the state in Attachment B. The consultant's conclusion regarding a Regent university's fleet operations stated:

(The University) has established a very successful strategy for provision of fleet services. It consists of the proper specifications of vehicles, acquiring vehicles through state contract, setting aggressive replacement cycles and adhering to them, stressing preventative maintenance, relying more heavily on outside vendors than in-house mechanics for maintenance service, and using the state auction for disposing of vehicles. The result is a low cost and apparently high service performance.

**TREMENDOUS IMPLEMENTATION COSTS**

Given the comprehensive nature and complexity of the Regent system, the cost to implement new integrated systems at the state level of the quality and efficiency of the systems currently in place at the Regent institutions would be cost prohibitive for the state in this very tight budget environment.

1. Actual out of pocket implementation costs for a comprehensive enterprise system would be exorbitant.

   - Estimated costs per module would range from $30 million to $70 million to include the universities.

   - Each of the following, which is not all inclusive, could be considered a module:
     - Accounting / general ledger
     - Purchasing
     - Budgeting
     - Payroll
     - Benefits
     - Billing
     - Student registration

2. Soft costs are difficult to quantify at this time but would include:

   - Staff time for design
   - Staff time to implement
   - Time delays in implementation
   - Learning curves for operating new systems
   - Dismantling current systems
   - Costs related to other workloads, especially considering the significant appropriation reductions at the Regent institutions in FY 2002 and FY 2003 of $124 million

3. A state unified agency that includes the Regent institutions would add another layer of government and bureaucracy and add to the cost of the system.
4. Universities operate in a regulatory environment quite different from central state government.

- Universities have very different accounting and academic accreditation standards.
- Universities have numerous distinct federal management and reporting requirements.
- Numerous university enterprises are self-supporting with bonded indebtedness having restrictive covenants for specialized accounting and reporting.
- If students work at the university and take a certain number of credit hours per academic year, neither the university nor the student have to pay FICA taxes (at 7.65%).
- Universities comply with special federal reporting and income tax requirements for nonresident alien (international) students/scholars.
- Universities handle multiple state income tax withholdings requirements and various year-end tax reporting requirements as required by the IRS such as student status (full or part time), amount of tuition paid and scholarship and grants received.
- Universities also have major federal operations (such as Ames Laboratory, Cooperative Extension, and Experiment Station with annual budgets totaling almost $100 million) with a different fiscal year-end than the university or state in addition to very restrictive accounting and reporting requirements.

5. The state does not have enterprise-wide integrated systems at this time.

- Many of the state’s current systems are approximately 20 years old or older.
- It would be extremely costly to completely replace the state’s systems and related computer capabilities for the state to be able to handle the complexity of the Regent institutions systems.
- The cost estimates for the state’s proposed new enterprise-wide systems did not consider the costs for integrating the various current Regent institutions systems.

6. Regent institutions currently have enterprise-wide, complex, integrated computerized systems, which include:

- Integrated budget/ management/ accounting/ procurement/ scheduling/ payroll/ benefits/ federal reporting systems
- Integrated student enrollment/ registration / accounting /payroll/ benefits systems
- Integrated management/ faculty / research/ contract /grant reporting
- Computerized hospital scheduling and billing systems that interface with the payroll benefits, accounting and procurement systems
- Paperless, web-based payroll/ benefits and procurement systems that include electronic payroll stubs and W-2s
- More than 1,000 subsystems per university that interface with the existing general ledger systems
- Online and downloadable data and query capabilities for management reporting from all of the integrated systems for which high speed internet and computer capabilities are required
• Complex billing systems

• Student billing functions are integrated with various database systems that include such things as residency status; academic field of study; number of courses and credit hours; grants, scholarships and loans, assistantships, additional billable activities, housing assignments and meal plans.

• Hospital billing functions are integrated with systems that document such things as medical treatments and tests conducted, pharmaceuticals and supplies utilized, physicians assigned, patient status, room charges, health insurance coverage, indigent patient care status, and acuity levels.

ONGOING COSTS AND INEFFICIENCIES

Accounting issues

1. The universities have very different accounting issues from those of the state agencies.

• Universities must present their financial statements in accordance with nationally accepted accounting standards (GASB) for universities, which are different from state accounting standards.

• The federal government has outlined cost principles for institutions of higher education that are very different from the cost principles for state agencies.

• The structure and accounting for the grants and contracts that universities receive are very different from those that state agencies receive.

• Conducting basic management activities such as biennial inventory and federally mandated asset title tracking requirements, as well as departmental level entries for depreciation.

2. Integrating the universities' payroll and cafeteria plans in a central state salary model over the last 16 years has yet to be accomplished.

Payroll

1. The universities payroll functions are significantly different from those of the state.

• Salaries for some university personnel come from as many as 25 different funding sources that change each payroll based on the research projects during a pay period.

• Student and university FICA exemption savings may be lost if the state became the paying entity.

• University systems currently handle numerous tax issues, including non-resident alien issues, for which failure to report and withhold correctly can result in large penalties from the IRS.

• Failure to correctly certify personnel efforts in a timely manner would result in disallowed costs on federal grants and contracts and would jeopardize university negotiated indirect cost rates.

• The universities’ payroll systems must be highly flexible to handle 9-month and 10-month contract employees, as well as various assignments that require regular payroll adjustments.

• Students employed through a federal work-study program must be tied to the accounting system and federal subsidiary systems.
2. The Universities payroll system is critical to governance and management processes. Example:
   - Queries based on the student enrollment systems and payroll systems are used to make decisions regarding staffing needs.
   - At UIHC, the nursing schedule is integrated with payroll to properly process pay and benefit calculations.

Purchasing

1. University purchasing volumes are exponentially higher than those of central state government.

2. The majority of goods purchased by the universities are vastly different from those of the state, but Regent personnel regularly work with state purchasing officials in efforts to generate cost savings through volume discounts on common items.

3. As educational institutions, the universities are able to participate in agreements with massive educational consortia that generate significant cost savings, compared to state government consortia, for the types of goods purchased by the universities.

   Inefficiency Cost — Educational discounts available to Regent institutions would be in jeopardy if the state controlled all purchasing.

4. The Regent institutions have central purchasing authorities that have developed expertise in such areas as:
   - Multiple federal procurement regulations for federally funded grants and contracts.
   - Specialized scientific research equipment, often cutting or bleeding edge technology, where purchasing agents must have the knowledge to communicate with both researchers and the vendors.
   - Solicitation and acquisition of technologically advanced laboratory equipment for classroom settings.
   - Web-based purchasing systems that have fully electronic routing and workflow built in to serve customers timely.

   Inefficiency costs if the state were expected to handle university purchases.
   - The core knowledge for university-related federal requirements would be lost.
   - The university expertise would be lost.
   - A number of talented researchers under significant pressure to produce research may leave if required purchases are not timely.
   - Significant donations of technologically advanced laboratory equipment could be lost.

Printing and Fleet

University printing operations and fleet operations are entirely self-supporting. There would be no state savings from the unified authority proposal.
CONCLUSION

1. The Board of Regents currently operates it complex enterprise efficiently and effectively verified by external evaluations.

The Board of Regents takes its governance responsibility very seriously. Through the Regent governance process, the management and administrative processes of its institutions have been repeatedly reviewed and continually improved.

Today's information systems do much more than collect data. Although the basic functions must exist (such as timely payment of staff and vendors, robust internal controls, security over system access, accuracy in accounting down to the last detail, such as a 45 character account code), a complete and evolving integration of systems is absolutely necessary to adequately operate the complex Regent institutions.

The Regent institutions currently have leading edge, fully automated and integrated systems and best practices in place. Regent practices have served as models for other state agencies and other institutions. Establishing one state-wide system will make it practically impossible to comply with all of the distinctive requirements.

The feasibility of successfully implementing a state-wide system that effectively incorporates the Regents at the institutional level of integration is highly questionable. The benefits envisioned by a Unified Authority that includes the Regents are incomprehensible. The proposal puts at risk the effective governance and management structure of a highly effective and efficient enterprise whose institutional missions are vastly different than other state government units. In addition, the proposal would infringe upon the statutory governance authority of the Board of Regents.

2. The unified authority proposal that includes the Regents would be extremely costly to implement and would unnecessarily create excessive costs for both the state and the Regent institutions in a challenging fiscal environment.

- The state would have to spend hundreds of millions of dollars to create an initial state unified system, if it were to include the Regent institutions.
  - These costs would not include Soft costs related to staffing, timing, workloads, and dismantling of current systems.
  - To handle the significant increase in volume and the complexity of the technologically integrated systems at the Regent institutions:
    - The state's workforce would have to be increased; and
    - The state's computer capabilities would need to be extensively upgraded or totally replaced.

3. The ongoing costs and inefficiencies from such a system would be significant.

- The proposed system would require significant monetary resources from the state to provide the continual modifications necessary to provide the flexibility for the ever-changing environment of educational institutions.

- The proposal would introduce inefficiencies for the state and reintroduce inefficiencies that the Regent institutions have worked hard to eliminate.

- New state costs would be duplicative because staff and shadow systems must be retained at the Regent institutions to handle the intricacies and complexities of the universities payroll and service needs on the campuses.