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Arena One – New Challenges, New Directions ADMINISTRATIVE, STUDENT AND FINANCIAL SERVICES

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I. <u>INTRODUCTION</u>

Administrative, student and financial services support the core academic mission of our seven universities and perform many of the compliance and accountability functions on behalf of the Chancellor and the Board of Trustees that allow them to fulfill their governance obligations. Ensuring the most efficient and effective delivery of these services was the work of the University of Maine System's Chief Financial Officers working on Arena One of the "New Challenges, New Directions" report.

The administrative, student and financial services arena consists primarily of information technology, financial management and accounting, facilities, risk, safety and environmental management, strategic procurement, human resources and benefits management, and other support and infrastructure-related operations. The arena also includes appropriate student administrative functions such as admissions data entry and loan processing, transfer credit processing, student billing and refunds, financial aid processing, tax return verification and immunization document processing.

To assist in their work, the CFOs also engaged campus and System level leaders in information technology, finance and accounting, facilities, procurement, and human resources, student services and others. A complete list of participants appears in this document on page 2.

Primary emphasis in the Arena One work was placed on controlling costs, including those related to compensation and benefits, by harnessing economies of scale through the distribution of personnel and other resources on an enterprise-wide level, with a dual focus of enhancing services to students. A separate effort to investigate opportunities for enhancing revenue was also undertaken and is included in this report.

It should be noted that prior efforts to reduce costs have thinned staffing in many of the areas covered under Arena One. On our smaller campuses, many of the administrative, student and financial services employees perform multiple functions making it difficult to reduce a position even if a particular function could be consolidated and performed at an enterprise level. Additionally, aging information systems and a lack of standardization of processes amongst the campuses impact the ability to form data-driven decisions and leverage economies of scale. Finally, many of our policies governing administrative procedures are outdated.

Nevertheless, the Chief Financial Officers undertook their task with the belief that additional opportunities did exist and, through our efforts, we determined that significant savings are possible, but implementing that savings will require some tough decisions on the part of System leadership.

The CFOs also note that the Multi-Year Plan on which the four-year $42 million structural gap is based was developed in more prosperous times and is now nearly a year old, therefore we have committed to updating that analysis over the summer of 2009 as we begin preparations for the FY11 budget cycle.

Specifically, Arena One was charged with investigating the following:

1. **Establishment of a centralized information technology function.** To realize the potential of our PeopleSoft investment and to obtain economies of scale. This effort will investigate drawing university IT personnel into a coordinated unit which is responsive to the needs of the university system as a whole. It will also seek to establish greater commonality of definitions, equipment and processes.

2. **Achievement of greater centralization of back-office services and enhanced oversight.** Investigate the consolidation of other critical administrative and support services such as finance, facilities and human resources to leverage core competencies through standardization and clarity of processes, use of new technologies and best practices, transparency and evaluation of performance against agreed upon metrics.

3. **Management of work force, compensation and benefits.**   Explore alternative, demand-linked employment arrangements; implementation of administrative staffing ratios; alignment of collectively bargained compensation, benefits programs, and terms of employment with available resources; and conduct a review of appointment terms for the management group.

4. **Establishment of a centralized procurement function.**   Investigate opportunities for savings through centralization of staffing and implementation of strategic procurement practices, including periodic re-bidding of all major contracts utilizing a System-wide contract where possible.

5. **Partner with other state or public entities.**   Explore opportunities to partner outside the University System to share costs and improve services.

6. **Implementation of Internet-based services to support academic and student services.**   Explore greater centralization of many services such as help desks, bursars and student billing offices to create a self-service environment that provides quality, timely services to students. This work builds upon the vision for the Shared Processing Center as outlined in the SSTP/THESIS report.

7. **Enhancement of revenue opportunities.** Assess the opportunity to generate additional revenue through new and existing sources.

II. SUMMARY OF RECOMMENDATIONS

A. System-wide Services Recommendations

1. The current array of services is needed to support the campuses and should be preserved.

2. An Advisory Council consisting of the seven campus CFOs and the Vice Chancellor for Finance and Administration should provide guidance and customer input for the management of System-wide Services.

3. System-wide Services should not be billed to campuses, but should be supported by appropriations or other resources.

B. Information Technology Recommendations

1. The Hybrid IT Consolidation model should be adopted creating dotted lines between campus IT directors and the System CIO; however, the System and its campuses should continue to explore opportunities for further consolidation as technology evolves.

2. An IT advisory group should be formed to provide for academic customer input into the management of certain IT resources.

3. The ERP Competency Center should be implemented. Note that funding for this proposal has already been included in the SWS FY10 budget as approved by the Board of Trustees.

C. Finance and Accounting Recommendations

1. To achieve efficiencies, the seven campuses must work like a System in implementing technology solutions and business processes in order to take advantage of economies of scale.

2. The Board of Trustees should engage in a review of the current waivers and reevaluate the original intent against current outcomes. Many of the waivers can be tightened through needs testing by requiring the completion of a FAFSA, which also ensures the UMS becomes the payer of last resort.

D. Facilities Management Recommendations

1. Update policies and practices that govern the performance of facility management to avoid future costs.

2. Replace the existing out-dated facilities information management system to provide consistent, reliable information to assess performance, ensure accountability, and support data driven decisions. As a first step, plan for near-term replacement of existing maintenance management systems.

3. Explore options for providing energy management support to campuses. While additional costs may be incurred, the opportunity for additional savings is significant.

E. Procurement Recommendations

1. Implement the business practice refinements related to strategic sourcing consistent with the recommendations suggested in the Huron report.

2. Investigate the options for new technology that will enhance opportunities for savings through automation of procurement and accounts payable. Develop a funding and implementation plan, including any necessary realignment of staff.

F. Human Resources and Workforce Management Recommendations

1. Implement increased employee and manager self service, portal, document imaging and management, and case management tools to improve efficiency of HR delivery.

2. Adopt a Center of Expertise (COE) model for the organization of HR and EEO services to leverage campus expertise across the system starting with a pilot project for benefits administration and wellness.

3. Accelerate implementation of payroll streamlining to increase use of direct deposit and electronic advice, decrease special checks and off cycle payroll runs, and determine the feasibility and return on investment of reducing the number of payroll cycles.

4. Implement incentives for wellness, disease management and use of quality care to reduce the cost trend increase in the group health plan for employees and retirees.

5. Contain the cost of compensation and benefits at current levels over the next two year period or reduce staffing by 200 FTEs, or some combination thereof, to control the growth of the largest cost component of the budget.

6. Future compensation increases should be tied to the availability of ongoing revenue.

7. Benefit redesign must occur to bring costs in line with the availability of ongoing revenue.

G. Student Services Delivery Recommendations

1. Work in the student service areas should continue in the quest for efficiencies and commonality. As functional groups become more familiar with MaineStreet, there will be discoveries and resultant opportunities for additional centralized processing.

2. Proceed with the implementation of immunization data entry, Native American waiver data entry and Stafford exit interviews at the Shared Processing Center as these can be accomplished within available staffing.

3. Develop a robust front end portal and virtual self service center to provide an easily accessible and navigable entry point to MaineStreet allowing students to access services at their convenience.

4. Re-examine the current status of one stop service at each campus to determine the most appropriate delivery of in-person front line services in the integrated world of MaineStreet.

5. Upon completion of the portal, virtual self service center and campus one stop service re-evaluate staffing needs across all campuses and the potential for sharing additional resources through the Shared Processing Center.

6. Direct the University College/ITV/On-line Assessment Committee to include within its deliberations the appropriate delivery of services to multi-campus students.

H. Revenue Enhancement Recommendations

1. UMS System leadership must play a role in determining the strategy by which the System and its campuses meet the needs of the state and its citizens and how it supports the work of and collaboration among the campuses in achieving the desired outcomes.

2. Consider a campaign to promote public baccalaureate and graduate education and link it to the future of Maine's economy and citizenry.

3. Leverage academic and financial resources across the system to develop an enrollment strategy to meet consumer interest and economic demand through quality academic programs and innovative tuition and financial aid strategies to ensure accessibility.

4. Explore additional opportunities for recruitment such as the non-traditional, international and transfer markets, partnerships with business and industry, and new methods of educational delivery to improve the accessibility of higher education to Maine people.

5. Ensure that auxiliary operations pay for themselves and are not a drain on E & G operations.

The Last Word

A consistent question reverberated throughout the discussions held by the CFOs and the six workgroups that labored on various aspects of Arena One. It bears repeating here.

Are we a System in which we have similar goals and operations, or are we seven independent institutions?

If there is a desire to move beyond the current state of affairs and refinement of operations to seek further savings through efficiencies and economies of scale and to ensure that higher education is accessible to Maine people, then the answer to this question must be that we are a System.

III. SUMMARY OF SAVINGS

Even while the work on Arena One progressed, the seven campuses and System-wide Services worked to balance their respective FY10 budgets in time to be implemented by July 1, 2009. The combined efforts to balance the FY10 budget yields over $20 million in ongoing savings by FY13, however, those savings are significantly offset by declining revenues and increased costs. Nevertheless, these savings serve to reduce the structural gap in FY13 by $13.2 million.

The work of Arena One identifies opportunities for significant savings, however, it will require the clear direction of System leadership and the focused efforts of many at both the System and the campus level to bring these savings to fruition and position the University of Maine System on a fiscally sustainable path.

A summary of all of the Arena One savings identified in the recommendations and opportunities outlined in this report appear below.

	New Challenges, New Directions Arena One Savings Compilation ($ in millions)			
	FY10	FY11	FY12	FY13
LOW ESTIMATE OF SAVINGS				
Campus/SWS FY10 Savings	$11.5	$12.4	$12.8	$13.2
Workforce Management	6.5	14.2	14.4	13.8
Hybrid IT Model & Other Savings	0.9	1.1	1.1	1.1
Finance & Accounting/Waivers	0.4	1.2	1.3	1.3
Procurement Strategic Sourcing	0.6	0.6	0.6	0.6
Total Savings	**$19.9**	**$29.5**	**$30.2**	**$30.0**
HIGH ESTIMATE OF SAVINGS*				
Enterprise IT Model & high-end savings	0.3	0.7	0.7	0.7
Enterprise Procurement Model	0.5	0.9	1.1	1.3
Total Savings	**$20.7**	**$31.1**	**$32.0**	**$32.0**

*Total savings available assuming high-end estimates and adoption of enterprise models for IT and Procurement.

IV. DISCUSSION OF RECOMMENDATIONS

A. System-wide Services: General Review

While the work of Arena One was focused on exploring opportunities for further efficiencies by leveraging additional resources across the system as a whole, the CFOs also committed to a review of the existing shared services and alternative methods of funding those services.

The CFOs reviewed the proposed FY10 budget and staffing levels for both the Chancellor's Office and System-wide Services, as well as detailed information regarding the roles and functions served by both the Chancellor's Office and System-wide Services, University of Maine System: Chancellor's Office and System-wide Services, March 2009, prepared for the "New Challenges, New Directions" Task Force (see **APPENDIX A-1**). They also directed the Information Technology, Facilities, Procurement, Human Resources and Student Services work groups formed under Arena One to evaluate the utility of the shared services accessed by each respective group and to identify any duplication of services that may exist.

The CFOs endorsed the FY10 budget for System-wide Services as proposed, which represents a $0.2M reduction from the FY09 budget and a $1.4M reduction from the anticipated FY10 budget under the Multi-Year Plan. Additionally, each workgroup and the CFOs affirmed the need for the current array of services provided. While neither the workgroups nor the CFOs believe a duplication of services exists, they did identify opportunities for leveraging the current resources of the seven campuses across the System to produce savings and improve service.

The Chief Financial Officers also unanimously endorsed an ongoing investment in an Enterprise Resource Planning Competency Center to support our PeopleSoft investment and ensure implementation and maintenance of critical applications across the System. The ERP CC builds on the 2008 Oracle Insights report which identified understaffing in key areas. Seventy-five percent of the funding needed to create the ERP CC was identified through an internal reallocation of funds within System-wide Services. The remaining cost has been built into the campus FY10 budgets.

An alternative funding plan allocating all of the costs associated with both the Chancellor's Office and System-wide Services was developed (see **APPENDIX A-2**). While the CFOs unanimously agreed that the cost allocation plan represented a fair distribution of costs, they declined to endorse an implementation of the plan. Generally, the CFOs concluded the potential drawbacks of billing out governance functions and shared services outweighed any perceived benefit. Nevertheless, they found the cost allocation plan to be a useful tool to employ in future funding decisions should new services be added. The CFOs also committed to a review of those existing services that are currently billed out and whether the allocation of those costs represents the best method of funding in the future.

Finally, the CFOs endorsed the implementation of a System-wide Services Advisory Council to provide guidance and customer input to the Vice Chancellor for Finance and Administration. The CFOs endorsed the recommendations of the "New Challenges, New Directions" Task Force CO/SWS subcommittee pertaining to System-wide Services (see **APPENDIX A-3**), with the following exceptions: first, the CFOs strongly believe they should make up the membership of the Advisory Council as they oversee most of the campus functions that interact with SWS; second, they do not believe a system-wide review of administrative services to identify duplication is necessary as prior studies and reports have already identified the appropriate hand-off between campus and system on affected services. Instead, they believe charging the Advisory Council with the responsibility of avoiding duplication is sufficient. Finally, they strongly caution that allowing campuses to select from a menu of services that are billed to the user campus at cost will not promote economies of scale.

B. Information Technology

The CFOs reviewed the current IT operations, as well as two organizational options for information technology services (see **APPENDIX B**). Regardless of which model is selected, $788,296 in additional ongoing savings exists due to the retirement of the legacy system and changes in the maintenance of other applications.

The first organizational option entailed an Enterprise IT Model organized by distinct skill areas, leveraging existing resources across the system and resulting in additional ongoing savings of $950,000.

The second option, termed the Hybrid IT Model, continues current reporting lines but adds a dotted line responsibility from campus IT directors to the system CIO and focuses attention on key areas for cooperation and consolidation. At this time, the campus IT directors and the CFOs have endorsed the Hybrid IT Model with additional savings of only $300,000 to $400,000, however, they remain open to further consolidation as technology changes warrant. The opportunities for savings from the Hybrid IT Model are outlined as follows:

1. Desktop/Laptop Procurement. A System-wide inventory of the total number of desktops/laptops on each campus was taken. The models procured were found to be substantially similar. Campus IT directors agreed to work to provide more common models and buy in aggregate from a limited number of vendors. It is anticipated that annual acquisition costs can be reduced between $75,000 - $150,000 starting late in FY10.

2. Server Consolidation. Overlap was found in the servers and storage systems procured by the system office and the campuses. An inventory was compiled and all campuses are working towards consolidating their servers on a campus basis. There is also agreement to achieve an additional consolidation on a system-wide basis by further consolidating services at one of the two system data centers (Orono and Portland) pending necessary upgrades to these centers. Additionally, operational costs can be lowered as we move to technology with less demand for power. Savings will be in the range of $75,000 - $150,000 starting in FY11 for acquisition.

3. E-Mail Consolidation. Additional savings can be found in outsourcing e-Mail for students to Google and plans are underway to implement this change. A recommendation to move faculty and staff to a similar model is also being explored. Savings are anticipated to be $70,000 starting in FY11.

4. Replace MS Office with Google's Office Applications or Open Office. This recommendation in general is being explored and a detailed project plan and business case is being prepared. A number of academic units currently use MS Office in their programs, so determining the extent of the possible conversion is difficult. Savings are in the range of $100,000, or less, depending on level of adoption.

5. Common Software and Courseware Licenses. A System-wide inventory was conducted and agreement was reached to move towards a single System-wide license for these items as current contracts expire. For example, the University of Maine has agreed to use Blackboard and terminate their WEB CT (Course Management Systems) in the fall of 2011. A savings of $40,000 will accrue to UMaine.

C. <u>Finance and Accounting</u>

The CFOs explored a number of opportunities for savings related to financial activities (see **APPENDIX C**), including: convenience fee solutions; bill payment suite; e-refunding; electronic transactions; lockbox services; centralization of credit card data uploads and reconciliations; travel management; purchasing card administration; housing application alternatives; payroll administration; and a review of current tuition waivers.

Immediate savings are projected to be $350,000 and may grow to $428,425 in FY13 by implementing the TouchNet Convenience Fee solution at three campuses, UMF, UMM and USM. UM already employs a convenience fee. Additional savings are possible if the remaining campuses choose to implement. Other opportunities for additional savings exist and continue to be explored.

Generally, the CFOs determined:

- Standardization of practices and requiring individual accountability are the biggest areas of savings.

- One of the greatest opportunities for efficiencies and savings can be found in the utilization of our investment in PeopleSoft.

- Only minor savings can be found in pursuing each of the opportunities identified under financial activities.

- To achieve efficiencies, we must act like a System in implementing technology solutions and business processes in order to take advantage of economies of scale.

The Vice Chancellor for Finance and Administration was charged with pursuing opportunities to partner with other State or public entities to share costs and improve services. Several initial areas for consideration were identified, including: data centers, health plan and ITV.

The IT workgroup is currently exploring alternatives for our two aging and outdated data centers, including co-location with the State of Maine Office of Information Technology. The Maine OIT must relocate by the end of 2012 due to the termination of a current lease. Synergies exist such that co-locating would result in savings for both parties. However, it should be noted that this is clearly a cost avoidance issue for the UMS.

The UMS also recently participated in a review by Mercer, the State's actuary, assessing the advantages to either the State or the UMS in joining their health plans. Although much speculation has occurred over the years, the review produced no clear evidence that either party would reap a significant immediate benefit. Nevertheless, we have committed to continue working with the State to allow for this opportunity in the future should cost savings prove achievable.

As the UMS considers how to transition to online delivery of educational programs and wean itself off of ITV, it has engaged in discussions with the Maine Public Broadcasting Network. UMS has a limited window of two to four years between the time it would have to invest in digital technology for its EBS spectrum and when it can complete a transition to online programming. This coincides with a window of opportunity that MPBN has to maximize its current capacity for digital television and when it plans to use that capacity to pursue other opportunities. While no final commitments have been made, we continue to explore this limited partnership opportunity in greater detail.

The CFOs also engaged in a review of the current waiver programs within the UMS and make the following recommendations for consideration by the Board of Trustees:

North American Indian Waiver
In order to ensure that students take full advantage of all resources available, prior to being awarded the NA waiver, all students for both the waiver and the scholarship should be required to fill out the FAFSA. Summer room and board scholarships should only be awarded for those students whose academic program requires summer attendance and enrollment. These changes would result in estimated savings of $500,000 per year.

Senior Citizen Waiver
The intent behind this waiver should be revisited to determine if the reasons for its continuation remain valid. Consideration should be given to discontinuing this waiver and encouraging individuals to apply for financial aid to determine eligibility. Savings from discontinuing this waiver is approximately $160,000 per year.

USS Maine Commemorative Tuition Waiver

As a part of the expectation of students prior to being awarded the USS Maine waiver, all students for the waiver should be required to fill out the FAFSA. Savings cannot be determined at this time.

High School Aspirations Incentive Waiver

The intent behind this waiver should be revisited to determine if the reasons for its continuation remain valid or if the purposes should be modified to reflect the current outcomes. It is the belief of the CFOs that, while serving a valuable purpose, the waiver is primarily used by students who will continue on to higher education regardless.

Each campus should have the ability to limit the availability of these waivers to a threshold number. Savings would be dependent on the campus decision regarding threshold.

Veteran's Dependent Waiver

The veteran's dependent waiver is found in State law and cannot be amended by the Board of Trustees. The CFOs believe the waiver should continue but that the statute should be amended to ensure that advantage is taken of other available funds thus ensuring that the UMS is the payer of last resort. Example – "…qualifies for a waiver from the tuition and fees that remain after the application of all payments from the federal Department of Veterans Affairs." Savings is estimated to be $200,000 per year.

D. **Facilities Management**

The CFOs concluded that major opportunities for consolidation of services related to facilities management have already been accounted for in past reviews. While cost savings opportunities are few, there are still significant opportunities to coordinate activities in order to avoid future costs. Much of this work is in the updating of policies and practices that govern the performance of facilities management.

Two alternative organizational structures were considered by the facilities directors work group and presented to the CFOs, a full consolidation and a regional structure (see **APPENDIX D**). Advantages and disadvantages were considered for both of these, as well as the current distributed model. However, no option emerged that represented significant cost savings.

In contrast, concerns were raised that staffing levels in System and campus facilities management have decreased over the past ten years as square footage has increased 17 percent. Also noted were critical investments in information systems to support facility management functions that have not been addressed.

Effective facilities management is dependent on consistent and reliable information to assess performance and ensure accountability. Facilities management has historically not been able to effectively compete for IT resources. This has resulted in out-dated technology that limits the usefulness of information to support management decisions. An investment in facility information management is required to ensure and maintain data integrity, and provide consistent management information to support campus operations and accountability needs.

Finally, the facilities directors recommended investing in a System-wide resource for energy management. It was estimated the cost of a position to serve this function on a System-wide basis would be $100,000 and that it would pay for itself through savings generated. UM offered an alternative pilot project where they would share, at no cost, their campus energy management resources with the other campuses. Campuses could also have access to UM's consultant, at cost, through the current UM contract or through a System-wide contract to be developed. The CFOs agreed to explore options for providing energy management support to all campuses.

E. <u>Procurement</u>

The procurement workgroup began work last fall under a Davis Educational Foundation grant and with the assistance of Huron Consulting Group to explore opportunities for savings through the implementation of System-wide strategic procurement strategies. The Huron report (see **APPENDIX E**) demonstrated significant opportunities for savings through business practice refinements in procurement and accounts payable and also recommended the addition of new technology and a consolidated procurement organizational model to ensure implementation and optimize utilization of resources.

The spend analysis performed by Huron suggests that significant opportunity for savings exists through pursuing coordinated strategic sourcing alone, as much as $600,000 annually. Additional opportunity exists through pursuing internal compliance, external compliance, prompt pay discounts and p-card settlement rebates and requires some initial investments in technology and changes in organizational structure to yield the full opportunity for savings. An additional positive return on investment of $1.3 million is possible by Year 4 if the Enterprise Procurement Model is fully implemented.

UM also put forward a hybrid option that would split the functions for procurement and accounts payable between UM and the system office, with UM being responsible for transactional work on accounts payable and specialty purchasing for other campuses.

The CFOs believe that significant opportunity exists in pursuing strategic sourcing immediately. They are also eager to explore the enhanced opportunities for savings through the application of new technology but wish to fully investigate the return on investment prior to recommending implementation. They also recommend that changes in organizational structure follow further investigation into the application and impact of automation.

F. Human Resources and Workforce Management

The HR workgroup developed a consensus service delivery model for sharing expertise and resources across the system called Centers of Expertise (see **APPENDIX F**). The Centers of Expertise (COE) would overlay the current System/university organization. Campus and system HR/EO staff would serve in the COE's as either team members or contributors. There would be COE's for each of the following five areas: Total Compensation, Employment Services and Equity, Labor Relations, Organizational Effectiveness, and Human Resources Information and Reporting Systems. A COE may be led by a campus or the system office. Employees in a COE may be co-located or geographically dispersed. Campus HR staff with special expertise in a specific area will have a system-wide role in that function through the COE. The HR workgroup proposed to pilot the model with an initial effort in benefits administration and wellness under the Total Compensation COE.

The workgroup also focused on key technological investments and other actions that would generate efficiencies. These include: increased employee/manager self service; increased usage of direct deposit, electronic advice and other actions that reduce the need for printed documents and paper handling; and focused efforts on reducing the cost of the group health plan through incentives for wellness, disease management and use of quality care.

Although no initial savings were identified, the opportunity for future cost avoidance in the implementation of these recommendations is significant.

The CFOs also reviewed information regarding the UMS workforce and its package of compensation and benefits. For the FY10 E & G Budget, compensation and benefits account for 74% of all expenses. Simply put, there is no way to bring spending in line with available resources without impacting this line of the budget. "New Challenges, New Directions" charged the CFOs with exploring alternative, demand-linked employment arrangements, implementation of administrative staffing ratios, alignment of collectively bargained compensation, benefits programs, and terms of employment within available resources, as well as a continuing review of appointment terms for the management group. This represents an ongoing effort on the part of CFOs.

The consultant for the "New Challenges, New Directions" Task Force, National Center for Higher Education Management Systems, provided valuable information on administrative staffing ratios to the Task Force in its May 20th presentation. A comparison of each campus to its peers suggests that, for the most part, our seven universities fall in the middle of the range for FTE students per full-time administrators. While no data is available for comparison of system-wide administration, NCHEMS suggested that 80% of public universities are in systems and that adding the SWS operation to the data they offered would not skew the results in any significant way.

In FY09, the average salary of a UMS employee equaled $45,106 and the benefit rate was 47.8%, for a total average cost of $66,667. For FY10, the average salary of a UMS employee equals $47,886 and the benefit rate is 49.3%, for a total average cost of $71,494. This represents a 7.25% increase year over year in the average cost of an employee. Increased costs for compensation and benefits are simply not sustainable at this rate.

Assuming UMS was able to contain compensation and benefit package costs at the current level for the next two years, we would yield an ongoing savings by the end of year two of nearly $14 million. Alternatively, if this savings had to come entirely from reductions in the workforce it would require the elimination of almost 200 full time positions.

The CFOs understand that to gain control of expenditures, UMS must engage in the proactive management of its workforce and how it is compensated. The benefit rate is nearly 50% and efforts must be made to both control costs through wellness incentives, disease management and use of quality care, as well as slowing the rate of increase in benefits costs or paring back the level of benefits.

G. Student Services Delivery

The task of the Student Services Delivery work group was to identify any near term cost savings or efficiencies related to MaineStreet operations involving admission, student records, student accounts and financial aid (see **APPENDIX G**).

The CFOs found that further opportunities to achieve significant savings are neither easy nor obvious, and that any movement beyond the current state is predicated on resolving broader organizational decisions that require more commonality in business processes and a willingness to manage these functions as a system versus seven independent campuses.

In 2002, the UMS began a migration from its legacy software to what we now know as PeopleSoft. A key factor in that discussion and planning was a definition of "System" and how PeopleSoft would be set up to accommodate whatever definition ultimately emerged. Although the PeopleSoft system was intended to be a "vanilla" implementation (e.g. little or no modification), it soon became apparent that the campuses were limited in their ability to agree on consistent policy and process applications in many situations; this resulted in a definition of "System" in which the operating procedures of the past (e.g. seven independent campuses with seven different ways of doing business) were protected.

The final module, Financial Aid, of the MaineStreet Student Service Areas (Campus Solutions) came on-line in February 2009. It takes an entire cycle of a functional implementation in order to develop an understanding of how PeopleSoft works and how the various functional areas intersect, limiting the ability to realize any efficiencies until a more comprehensive knowledge of the software develops for the users. Likewise, until all functional area modules within an integrated system are implemented, there is limited knowledge as to changes and efficiencies that can result from cross-functionality.

The original assumption was that back office functions could be handled in a centralized manner. A Shared Processing Center (SPC) was developed to begin this process. Opportunities for additional work for the SPC require that the centralized function lend itself to consistent policy and practice and all end users must agree. Additionally, current capacity of the SPC is limited by what can fit within the "off cycle" of admissions processing, such as immunization processing, North American Indian waiver data entry and Stafford exit interviews. Adding additional capacity to the SPC depends on eliminating equal or greater staffing capacity at the campus level in order to present a valid business case.

For small campuses, certain staff members are responsible for multiple functions. Thus, while a reduction in the cost of delivery can be achieved, a reduction in the campus' bottom-line is often not achievable because small fractions of a person make it difficult to identify savings.   Even when a reallocation of duties on the campus is possible, minimal savings result. No matter what the distribution of personnel across the campuses and the organizational structure, it takes a certain number of personnel to deliver the service our students require and our campuses expect. Remaining opportunities for savings through consolidation of services at the SPC require a broader System-level view to delivering student services.

It is clear that UMS is significantly behind our competitors in terms of the delivery of streamlined, robust self service capability for our students. We also know that our students consistently report the need for more "one stop" student services, delivered both in actual service locations and virtually.

A "virtual" robust self service environment is essential for our students, and has the potential of reducing or, minimally, avoiding cost in the long term while increasing student satisfaction. Investment will be needed to move the UMS to an easily navigable, accessible student self service entry point.

Portals are being developed at institutions across the country as a way to deliver a broad range of student services but also to greatly expand the virtual ability of a student to manage their entire academic career (including their academic portfolio). Numerous "virtual" student services could be combined into a front end portal through which students could receive any number of services beyond those this workgroup was researching. The development of such a portal is an expensive proposition for any individual campus and even for the System but, in the long term, this sort of development is needed if we are to both deliver the kind of service our students expect and remain competitive. A workgroup has been formed to assess the design parameters for a UMS portal.

Based on the work of THESIS, the formation of campus based one stop service locations was recommended strongly and was supported by the campuses. However, this development stalled in recent years. Theoretically, the key component of such one stop operations is a cross functionally trained staff that can more effectively and efficiently manage the delivery of service across the entire academic year, and can potentially result in cost savings (or, again, cost avoidance) as the knowledge base of the staff matures.

Finally, it is very clear that the service delivery to multi-campus students is a major issue for such students and for those who serve them, regardless of the current number of students who are so categorized. As campuses potentially offer more collaborative degrees, this number will only grow. Additionally, with the increase in the numbers of students accessing on line coursework, the different learning modes of the students will increase as well. Absent any changes in how we currently define the System and assuming that our current mode of many different ways of doing business holds, developing a broad based solution to the appropriate delivery of services to these students is critical. The University College/ITV/On-line Assessment Committee, chaired by President Allyson Handley, is conducting a review of the future use of technology for distance education in the University System. The CFOs recommend that this review include recommendations to resolve the many barriers confronting multi-campus students.

H. <u>Revenue Enhancement</u>

This workgroup was charged with identifying and evaluating areas of revenue enhancement and recommending actions that will be pursued (see APPENDIX H). These areas included but were not limited to: tuition and fees (to include dining and residence fees), enrollment, grants and contracts (including F & A cost sharing/ indirect cost recovery), collaborative arrangements for revenue sharing with outside agencies/organizations, continuing education/lifelong learning outreach, sales/services, other auxiliary revenue areas, and others as appropriate.

Federal, state, and local policy makers recognize that policy decisions are influenced by the demographics of their respective populations. The CFOs of the System understand this. Since 1990, New England's population has grown by just 8% compared with 22% for the nation as a whole.   While Maine's population has grown 7% over this timeframe, the expected number of high school graduates within the next decade is expected to decrease by 16%. Currently about 50% of those students going on to a four-year college have gone out-of-state. Because Maine's public universities rely principally on this traditional source for its students and therefore its primary revenue source, because the campuses of the UMS are limited in their resources to be able to aggressively recruit these and other populations, and because there is increasing competition with Maine's Community College System campuses for this declining student population base, there are real limits to revenue growth for the campuses.

The UMS has invested substantial resources to understand and manage its expenses and track revenues. However, it has not made the parallel investment to understand, or the policy decisions to manage, enrollment.

In addition, there exist unrealized potentials for the System to act in ways that support the campus-level core efforts by connecting public higher education to the quality of life of Maine people and to the economic development of the state.

Learning accrues over a lifetime, and the many opportunities presented by the University of Maine System build that foundation and that future for Maine's people. However, the UMS has not been as effective as it could have been in promoting these core values, developing a strong reputation or in expanding the support for public baccalaureate and post-baccalaureate education in Maine.

UMS leadership and the Board of Trustees must address one fundamental question:

"What is the role of the UMS/System leadership in determining the strategy by which the System and its universities meet the needs of the state and its citizens and how then does it support the work of and collaboration among the universities in achieving the desired outcomes?"

Further, the UMS leadership and the Board of Trustees should consider whether tuition is set in order to achieve a balanced budget or whether is it set to achieve student access.

The current funding model of our campuses suggests that we believe we can continue to grow enrollment year after year. In reality, enrollments have been dropping over the past few years and this appears to be an ongoing trend. While a discussion of revenue enhancement "around the edges" is possible, more pressing questions demand attention.

Enrollment increases in direct proportion to consumer interest in and awareness of the programs offered. To sustain, expand or grow enrollment is largely a function of programs offered but is also impacted by cost factors including tuition, the availability of financial aid, as well as qualified faculty and staff. The UMS has not heretofore engaged in a strategic review of existing programs in light of state need, nor have the campuses worked collaboratively to establish new programs responsive to state and regional needs, and student interests.

Increasing the number of students pursuing a baccalaureate and graduate education at our seven universities will require a System-level tuition and financial aid strategy, as well as investment in a common campaign for UMS that raises the reputation and perception of UMS campuses and public higher education as a good and cost effective choice.

The CFOs believe that threshold issue for future success of the UMS is indeed the public's understanding and reputation of the UMS as a whole entity, and how its programs contribute to the economic development of Maine. We need to foster a collaborative approach across the campuses in all of our work that enables us to improve our image, serve our mission, and ensure financial sustainability. In the current model, our campuses cannot all thrive and some may only barely survive; the constant reductions in budget, staff and programs to meet costs with no comprehensive strategy to improve revenues only serves to plunge our campuses towards mediocrity. A new model must emerge which ensures that all campuses can succeed in whatever role makes the most sense for them in the collective future of the System. While there may be opportunities for some enrollment growth, it will not be sufficient to resolve the needed revenue in the current construct of the UMS.

As seven independent campuses which compete with each other, our campuses have not traditionally been encouraged to "share" students, programs or resources. As a System, we should be thinking about the collective welfare of the campuses and how together we can best meet the needs of our students and our State.