

**Senate Finance Higher Education Subcommittee
Senator Judith Zaffirini, Chair**

**Testimony of Chancellor Michael D. McKinney
The Texas A&M University System
Wednesday, June 25, 2008, 9:00 am
Capitol Extension E1.036**

(Your greetings to the Chair & committee...and, if you wish to say anything to make clear that you are not advocating any policy position with respect to adding or removing any institution to or from a system.)

You have asked me to discuss the advantages and disadvantages of organizing institutions of higher education into systems. I have served at the system level in two systems and at the institutional level in one; I believe there are in fact some advantages to being a member of a system...and some disadvantages, and I will offer comments on each.

My comments will focus primarily on the advantages and disadvantages of systems from the point of view of what being a member of a system means to an institution and, from the point of view of what systems can offer in regard to responsiveness and accountability to elected policymakers such as yourselves. Although it's been a few years, I was once one of you and understand that you are the ultimate policymakers for higher education. I will try to refer by name and cite examples only from the A&M System.

The Texas A&M University System Office provides strategic leadership and support services to its member institutions. It does that by initiating, responding to, and holding ourselves and our members accountable for meeting, and hopefully exceeding, performance standards and public policies issues that you, the governor, and our Board of Regents set. In operational terms we do that by providing excellent education to our students, developing and commercializing research findings of our faculties, and providing services that improve the lives of Texans and strengthen business and commerce.

The System's leadership activities are exercised by fulfilling its statutory and constitutional fiduciary responsibilities, by encouraging coordination, collaboration and planning among our members — “acting like a System”, if you like – and by constantly searching for ways to improve efficiencies and reduce administrative costs through the concentration of expertise and economies of scale. While our System universities, and Health Science Center are directly responsible for delivery of education, research and services that fulfill their respective missions, the System Office strives to find ways to do these things better, faster, more efficiently, and to find new things that help the institutions (not just better at what we already do).

The A&M System Office is responsible for consolidating essential services and functions at the System level that will take advantage of economies of scale and provide added value that would otherwise be too expensive for our members to obtain individually. In order to find out if the System Office was doing so, a few years ago (2003), our Board of Regents commissioned an evaluation of System services and operations by an outside management consulting firm (Accenture). They reported to the Board that

the System Office provided centralized services and affected cost-cutting policies and practices that annually saved A&M member institutions over \$24 million per year. In preparing my remarks I solicited ideas from my executive staff, administrators at our universities and specifically Elsa Murano, George Wright, Keith McFarland and Nancy Dickey.

Advantages of a System:

The following are some examples of centralized services provided by the System Office that our member institutions tell us are advantages of being in a system. (*Now, being in a system is not all positive; I will come to some disadvantages in a few minutes.*)

The A&M System Office is responsible for:

1. Strategic planning with Compacts requiring a disciplined approach to growth and budgeting and requiring attention to the needs (and wants) of not just the university but, also the region and the STATE.
2. Providing centralized audit and legal services that ensure accountability and compliance of the System and its member institutions with all state and federal requirements including internal auditors and investigators that individual regional universities could not find or afford. Both of these functions have independent authority to report directly *to the Board of Regents any actions they consider questionable*. Also provided is a Risk and Misconduct Hotline that is available to all students, employees and other stakeholders to report instances of suspected wrongdoing.

3. Fostering partnerships and collaboration among members in order to achieve operational efficiencies through use of shared services and programs.

a) *We have a service center concept wherein the universities help decide what services to share. Some of the System-Wide IT services determined to be cost effective include:*

- BPP Payroll System
- FAMIS Financial System
- HR Connect Benefit System (evaluations)
- Leave TRAQ (vacation and sick leave)
- Train TRAQ (online delivery and tracking)
- Time TRAQ (timesheets for biweekly employees)
- System Office to Warehouse (centralized data base for reporting to SAC's, LBB/Gov, THECB, BOR etc.)

b) TTVN has been in operation since 1990 and leveraged combined resources to meet networking and interactive communications needs through a reliable network that is very cost effective.

4. Providing assistance in development of new academic programs and degrees, and guidance in meeting performance standards for on-going programs by representing the A&M System before the Texas Higher Education Coordinating Board.

a) Our ability to obtain grants is enhanced when we apply as a system rather than as individual institutions because we are able to ring in the flagship, Hispanic serving institutions, HBU and also rural institutions. The System has received several collaborative grants because of this. A perfect example is the

money that we received from the Department of Education for the Regent's Initiative that involved all nine institutions.

- b) We are able to take advantage of programs like the "Pathways to the Doctorate" where we recruit and provide a seamless transition to graduate programs from our sister institutions.

5. Providing centralized cash, investment, and revenue debt management;

a) Endowment and Cash Operating Funds

- Economies of scale spread costs across more dollars invested.
- TAMUS cost of investment management oversight = 0.01% (1 basis point)
- Larger pool of funds allows broader diversification of assets; resulting in higher return potential and lower risk
- Annualized returns since 1995
 - Endowment: 10.5%
 - Cash Pool: 7.5%

b) Benefits of Revenue Financing System (with combined assets)

- Rated AA+ and Aa1 (second highest rating category) - Example - \$100 million debt issuance, difference in interest cost between AA and A ratings
 - 40 basis points or
 - \$5.4 million over 20 years
- Economies of scale
 - Fixed costs of issuance are spread over more projects

- Per the Bond Review Board annual report, cost of issuance for all State issuers averaged \$7.66 per bond
 - A&M System cost is approximately \$4.30 per bond or 44% lower than the state average
 - c) Cash Management
 - Economies of scale to achieve lower banking costs
 - TAMUS pricing is 20% lower than Phoenix-Hecht Blue Book of Bank Prices
- 6. Coordinating the governmental and legislative relations of all members and providing (coordinated point-of-contact) for elected policy makers and executive oversight agencies
- 7. Providing system-wide facilities planning and construction oversight (now at >\$2B)
- 8. Providing risk management services
 - a) Level of expertise in risk management areas such as insurance and environmental compliance which may not be feasible for a single institution;
 - b) Consolidating to create critical mass produces savings in insurance premiums through economies of scale for liability and asset protection, as well as for employee benefit plans;
 - c) For 2008, State institutions which are not part of a System averaged over \$0.35 per \$100 in payroll for worker's compensation coverage versus \$0.27 at the A&M System (TAMUS rate will be \$0.19 per \$100 in payroll for FY 2009)

9. Managing all real estate matters (leases, purchases, sales, partnerships, etc.
10. Providing assistance and expertise in patent, copyright and technology commercialization services
11. Development and implementation assistance, and coordination of an expanded Historically Underutilized Business (HUB) program

Higher-level Services and Functions:

In addition to performing the individual services and functions listed above, we are working on “cross- managerial functions” that bring together programmatic, financial, and public policy considerations to improve the accountability and performance of our System and its member institutions: (Service Center concept)

- Increased accountability: By developing intra-system performance benchmarks that will allow an institution to critique itself “safely” with other System members and make early internal adjustments before finding itself out of compliance with statewide indicators. (Data collection and sharing of best practices and experiences.)
- Strategic Planning: By developing a system-wide strategic plan that turns goals into operational actions; which is to say, by requiring budgets, timelines, progress mileposts, and assignment of accountability to individuals (and compacts with System and Chancellor’s Office.)

Disadvantages of Being in a System:

1. Expenses of System operations not part of cost matrix for determining formula funding (therefore assess the members for services.)
2. Institutions diminished direct contact with Board of Regents (*Dr. Wright said this was an ADVANTAGE of being in a system, because it allowed a president to work out solutions with the System before involving the Board*);
3. Loss of some individuality and independence. Decreased ability to respond to the local needs;
4. Increased administrative structure. Some requests such as budget, Coordinating Board, legislative, construction, etc. must be reviewed at system levels for approval prior to bringing to the BOR level.
5. Flagship may get majority of Board's attention;
 - a) Flagship would say that regionals require some of Board's attention rather than ALL being found on flagship (at least would say smaller universities require disproportionate amount of System's attention.)
6. Reputations of TAMU, TAMUS and Regional's and HSC are tied together (unequally yoked.)
7. Some input to legislature from individual institutions and the campus administrators may be managed in a system, because of system's lead role in communicating legislative priorities of the whole system.
 - a) We also understand that local representatives and senators listen to local university's needs. We take advantage of this

local relation for presenting the entire System's programs
(strength in #'s.)

Having served at the System and the institutional level I have experienced the positives and the negatives from both sides. My overall opinion is that the benefits to the students, the parents, the tuition payers and the state taxpayers far outweigh the loss of individuality or independence by administrators.

The System has responsibility to the state as a whole and may sometimes cost money or time on a particular project in order to lessen the risk (financial or reputational) to the whole. I also acknowledge that occasionally some purchases (HUB) present the best value proposition to the state. We at the Texas A&M System will take this broader approach. Our universities work very well together and we're getting better week by week.

I also would love for you to talk with our university presidents to get their unfiltered opinions. I believe you will find they think the assistance outweigh the hindrance.