GENERAL:

The University System should obtain the goods and services that it requires to fulfill its mission by the most economical means, consistent with the requirements of that mission.

GUIDELINES:

The Universities will ensure that periodic reviews are performed to determine whether auxiliary services currently being provided by university system staff could be more effectively procured from outside contractors. No less often than every five years, each university President shall submit to the Office of Finance and Treasurer a 5 year projection of the costs and revenues of each auxiliary enterprise operated with university staff. All costs reasonably associated with internal operations should be included in the analysis, including overhead and employee benefits. Contracts with outside organizations for the provision of services will be re-bid at intervals not to exceed five years.

The following is the timetable for submitting reports of the reviews of internal University services that are available from outside contractors:

- Bookstores at all campuses except UM/USM & UM/USM Printing Services & UM Motor Pool..........................August 15, 2000
- UM Food Services & USM Bookstore........................................August 15, 2001
- Motor Pools at all campuses except UM & UM Bookstore....August 15, 2002

The following is a guideline that is intended to facilitate the comparative analysis of University services that are available from outside contractors. A campus should adapt what is included here as appropriate when conducting reviews of its operations; not every item listed will be applicable in every review. Most of what is presented was obtained from a publication sponsored by The Council of Higher Education Management Associations entitled Contract Management or Self-Operation: A Decision-Making Guide for Higher Education.
I. Identify the members of the Project Team who will conduct the review process

In order to review the effectiveness of an auxiliary enterprise and identify alternative solutions, the Project Team should include the following types of individuals:

1. A financial analyst who can assist in performing the analysis of the costs associated with each proposed alternative, including all of the expenses associated with the current campus managed enterprise.

2. A human resource specialist knowledgeable about the University’s human resource policies, affirmative action, equal employment opportunity, collective bargaining contracts, and employee performance evaluation.

3. An advisor familiar with contracting for services in higher education, including issues of unfair competition, unrelated business income tax, property tax exemptions/payments in lieu of taxes, and legal liability.

4. Representatives of the "customers" of the auxiliary enterprise, such as students, faculty, and staff. The goal is to include in the decision making process representatives of the groups that will later judge the success or failure of the final solution that is selected. The greater the extent to which these groups can be involved, the greater should be their degree of support for any new approach.

5. An advisor who is familiar with the functional area's operation (typically the current manager).

6. Administrative representatives who have decision making authority such as vice presidents, chief financial officers, deans, etc.

II. Identify, in rank order, the decision criteria that will be used to evaluate alternative solutions, including the current operation.

By establishing a set of criteria against which each solution can be evaluated, the university will be able to determine systematically which alternative best meets its needs. By selecting the criteria with the help of the Project Team, each alternative will be evaluated in terms of the factors that are most important to each of the major campus constituencies. The decision criteria should be ranked in order of importance and should include the following elements:
1. **Financial**
   
a) 5-year revenue history and projection (10 years total).

b) 5-year total cost history and projection (10 years total) including direct costs, utility costs, maintenance costs, and employee benefit and administrative support costs (accounting, human resource, payroll, purchasing, maintenance & operation of facilities, senior management time spent overseeing the function’s operations, etc.).

c) Level of investment needed to maintain or enhance the operation.

d) Revenue that would be lost if an outside contractor were utilized. Conversely, the cost savings (if any) that would be realized with an outside contractor.

e) Comparison of prices, revenues, and expenses at peer institutions.

f) Impact on prices, revenues and costs if an outside contractor is chosen.

g) Implications on tax-exempt bonds if for-profit outside organizations are involved in a building funded by bonds (University Legal Counsel to be consulted).

2. **Human Resources**
   
a) Projected growth in employee compensation, including benefits, for the next 5 years.

b) Employee skill levels.

c) Adequacy of employee training programs.

d) Impact on existing employees if an outside contractor is selected, including retention, compensation, benefits, morale, collective bargaining, etc.
3. **Mission & Culture**

   a) A mission statement for the functional area.

   b) Statement of the campus’s expectations for the enterprise’s performance (financial, scope and quality of services, cost to customers, etc.).

   c) Possible reaction of students, faculty, alumni, and others to the introduction of an outside contractor.

   d) Role of the enterprise in supporting the campus’s mission.

4. **Management Control & Efficiency**

   a) Level of management responsiveness, efficiency, effectiveness and leadership.

   b) Conformity of the enterprise’s operations with industry standards.

   c) Capacity of the functional area’s plant and equipment for providing high-quality service, minimizing costs, and maximizing revenue.

   d) Level of the annual cost of upkeep of the infrastructure for the functional area.

   e) Adequacy of policies and procedures in striking a balance between efficiency and control.

   f) Adequacy of information systems and effectiveness of the systems in interacting with the campus’s other administrative information systems.

   g) Degree of control the campus needs to retain over the enterprise.

   h) Comparison of the infrastructure’s age, functions, and features to those in peer institutions.

   i) Adequacy of methods for evaluating the performance of the functional area’s managers.

   j) Evaluation of the reputation of the potential managers.
5. **Service Quality**
   a) Identification of the enterprise's customers.

   b) Identification of the types and level of service expected by the customers.

   c) Determination of the extent to which the needs of customers are being met.

   d) Determination of whether appropriate emphasis is being placed on customer satisfaction and quality.

   e) Identification of changes that need to be made in the number and quality of services provided.

6. **Legal Considerations**
   a) Potential financial and liability risks associated with self-operation versus utilizing an outside contractor, including insurance costs.

   b) Need for the campus to insulate itself from these risks.

   c) Impact of alternatives on the enterprise’s tax status, e.g., unrelated business income tax and property tax exemptions/payments in-lieu of taxes.

   d) Impact of the enterprise on the local business community and potential for accusations of unfair competition.

   e) Determination of responsibility for compliance with local, state, and federal regulations.

III. **Identify and Evaluate Each Operating Alternative**

Various alternatives, including in-house operation, contract service, and combinations of these, should be identified. The current in-house operation should be evaluated utilizing the preceding criteria. The knowledge gained from this evaluation of the in-house operation, i.e., its strengths and weaknesses, should be used to prepare proposal specifications if such are deemed necessary. This internal assessment should be summarized as a part of the final report. If it is determined that outside proposals or bids are desired, they should be solicited from the existing in-house manager along with a number of outside vendors. A new selection panel should be established to evaluate formal vendor submissions. If the internal activity is also submitting an offer, representatives of that activity should not, of course, serve on the selection panel. A comprehensive evaluation of each alternative should be included in the report based on the decision criteria set forth in Section II.
IV. Identify the recommended alternative and provide a Management Summary supporting the Recommendation

The recommended operating alternative should be identified and a summary provided explaining the reasons for its selection. If an outside contractor is being selected, the transition plan for moving from the existing method of operation to the new method should be explained. Finally, the impact of any proposed changes, whether retaining the in-house operation or selecting an outside contractor, should be discussed.

APPROVED:

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Chief Financial Officer and Treasurer