University Fiscal Health Advisory Committee
Committee Recommendations Final Report

President Schulz appointed the University Fiscal Health Advisory Committee (UFHAC) in spring 2018 with the following charge:

- Review the University's fiscal health and budget situation

- Develop a set of recommendations to identify strategies and plans to improve the University's long-term financial health

- Identify opportunities for new revenue sources and current policies and processes to encourage the development and improvement of programs to attract students and generate new enrollments and revenues

- Review current administrative structures and recommend ways to operate more efficiently and reduce administrative costs

At the time of this assignment, there were many challenges that required immediate action, including a growing annual operating deficit that started in FY2014 and continued until the most recent fiscal year. The fiscal recovery initiative was implemented to reduce the FY2017 $30 million operating budget deficit by $10 million per year for three years until a balanced budget was achieved. While this exercise did not include budget reductions, it did require each area to meet a fiscal "run rate" target to reverse the deficit spending trend.

This initiative has been successful as the targets were exceeded for the first two years and similar results are expected for the third and final year.

While this is very good news, the work of the UFHAC and ongoing financial analysis has revealed that the University continues to experience fiscal challenges that go beyond meeting the annual recovery targets. In addition, WSU currently operates on an aged financial and HR system that does not enable timely fiscal reporting and requires significant manual intervention to develop reports on

budgetary progress and analysis. The implementation of Workday Cloud financial and HR systems will enable more timely reporting, the provision of real time data and the ability to utilize dashboards and data analytics to improve financial management and enable long term planning.

Though the recommendations proposed in this document do not solve all of the University's financial challenges, they are intended to propose a path forward. The objectives are to enable better processes, implement improved financial and budgetary practices and lay the foundation for a new budget process and model to support the strategic plan and multi-campus system that is envisioned to focus on student success and enabling the Drive to 25.

Practices have been identified that inhibit the development of sound financial models. This includes a lack of adherence to current policies (*Executive Policy #1) that requires all units to spend in accordance with their budgets and that prohibits deficit spending. Multiple years of deficit spending has depleted the central reserves and current balances are well below fiscal health minimums recommended as 5 to 10 percent of the annual operating budget. In addition, WSU has not engaged in a robust annual budgeting process in many years. There is also a lack of financial planning tools and processes to manage fiscal health and plan for strategic investments. While these practices are fairly easy to identify, the process to reverse these trends has been challenging and this will likely continue as new policies and practices are implemented in a period where WSU is planning for and experiencing ongoing change. The University will be in a better position to gather data and evaluate revenue structures and spending patterns with the implementation of modern information systems. However, this position will need to couple with sound policies and fiscal management processes. Finally, a strong commitment to continue to examine and revise current practices that no longer serve to support a modern and greatly expanded University system will enable WSU to implement new practices that focus on meeting the goals and objectives of the new strategic plan.

The following recommendations address the assigned tasks and are intended to serve as a starting point to address many of these issues. In many areas, implementation is already underway, and there is opportunity to leverage these recommendations to address some of the issues identified by other working groups as solutions are proposed. The UFHAC recommendations are intended to provide a roadmap for future improvements as the University's strategic plan is aligned with the WSU system structure and to develop a future budget model that supports academic excellence and student success.

Recommendations

1. Examine current budgetary practices and propose new budget models for the future.

– Complete the third year of the fiscal recovery for the operating budget by exceeding the breakeven goal for FY2020. *This is currently on track*.

   – Formalize and monitor recovery plans for areas that continue to have operating and/ or carryforward deficits to ensure that recovery targets are met in accordance with approved plans.

   – Ensure that Athletics meets their annual budget plan to eliminate deficit spending by FY2023. Develop a plan and timeline to reduce the accumulated Athletics deficit to recover University reserves.

   – Develop and publicize an "all funds" annual operating budget for the WSU system and implement an annual budget process that enables the sharing of the funding needs to achieve the University's strategic goals.

– Rebuild WSU central reserves to achieve and maintain fiscal health.

   – Develop and implement a policy to define minimum reserve levels and establish the purpose of these reserves, at the WSU system level and for all campuses, colleges and units.

      – Designate and fund an emergency reserve fund that can only be used to reach and retain minimum reserve levels

      – Establish a strategic investment fund dedicated to support strategic plan initiatives. Develop a formal process to leverage the strategic investment fund. For example:

         – Matching funds/investment for new and enhanced programs that contribute directly to Drive to 25 metrics.

         – Investment in startup operations to generate revenues that can be re- invested in successful programs.

– Develop a plan to resolve fiscal structural issues and infrastructure deficiencies in the next fiscal year to establish a solid basis for building a future budget model.

   – Implement short-term solutions for unfunded commitments and deficit accounts.

      – Implement and enforce policies that prohibit deficit spending and establish minimum reserve levels.

      – Leverage the Workday system to develop and utilize data for decision analyses and progress reporting.

- Implement annual processes that are inclusive of all WSU entities and focused on strategic initiatives.

- Incorporate metrics and appropriate KPIs into all budget and planning processes.

  - Build a robust data warehouse and reporting framework that serves as a "single source of truth" across all WSU entities.

- Develop a process to determine the necessary base funding for all campuses, colleges and administrative units and appropriate incentives for revenue generating units.

  - Identify opportunities for strategic reallocation. For example, the Grand Challenge reallocation funds have an expiration date and should be reviewed for this purpose.

- Develop clear accountability measures and ensure that area managers understand their budget responsibilities to achieve stated performance results.

  - Promote administrative and support unit responsibilities to provide high quality services in support of academic excellence and student success.

  - Establish metrics and benchmarks to measure cost efficiencies and provide financial trend data to measure progress.

- Inventory current budget practices and recommend changes for implementation.

  - Review the current enrollment-based budget (EBB) model and implement revisions to support strategic initiatives *(in process)*.

  - Establish a budgetary framework with clear criteria to prioritize initiatives and metrics to measure progress.

  - Ensure that core courses are appropriately funded to support foundational programs and academic progress.

  - Establish criteria and performance measures for growing, maintaining or phasing out programs.

    - Develop a template for program evaluation that can be used to gather information for analysis and comparison.

    - Identify data needed for program evaluation (enrollments, revenues, impactful metrics, etc.).

    - Incorporate a review process to determine if programs are meeting stated goals and metrics.

  - Develop a "phase out" plan for less successful programs and identify a reallocation process to leverage the use of current resources to fund new programs.

  - Consider how programs can be combined, enhanced or eliminated to support student success and respond to market demands.

  - Develop incentives for interdisciplinary approaches that reward collaboration.

- Develop and test a funding incentive structure that rewards success and provides funding for reinvestment and maintenance of core functions.

  - Must be measurable and include specific outcomes, projected revenues and expenditures.

  - Include student success metrics in the model.

- Appoint a high level and inclusive Executive Budget and Planning Committee to lead the development of system-wide budget processes and models to support the new strategic plan and system structure. This Committee's initial tasks could include the following;

  - Review and make recommendations to revise WSU Executive Policy #1 to reflect modern budget practices and procedures.

  - Establish budget processes based on guiding principles, including:

    - Alignment with the strategic plan, advancement of WSU stated goals, maintenance of assets, adherence to best practices, promotes efficiency and effectiveness, instills confidence, incentivizes and rewards collaboration.

    - Establish accountability measures for resource management and achievement of outcomes.

      - Develop incentives to advance Drive to 25 and student success.

      - Multi-year plan that includes metrics and deliverables.

    - Oversight of a comprehensive budget process that includes all funds, all areas and is coordinated with government relations, advancement, facilities and other areas that manage resources on behalf of all WSU.

  - Develop a future budget model to support the WSU system strategic plan and priorities.

    - Develop incentives to grow enrollments at all WSU campuses and reward collaboration between departments, colleges, campuses and all WSU entities.

2. Propose revenue enhancements

- Implement a model for professional programs that incentivizes enrollment growth and revenue sharing *(in process for graduate programs)*.

- Develop a WSU comprehensive strategic enrollment plan to grow enrollments and identify where the greatest opportunities and capacities exist.

- Implement recommendations to increase net tuition revenues with the goal of increasing these revenues. Measures include:

  - Establish a budget for tuition waivers based on the goals of the strategic enrollment plan.

  - Develop a process to stack financial aid and scholarships that reduces the reliance on the use of current tuition revenues while leveraging scholarship dollars.

- Leverage scholarship dollars to maximize awards from philanthropic and sponsored funding sources.

- Assess and leverage the impact of the new Washington College Grant program.

- Develop tuition revenue policies based on a WSU system-wide comprehensive strategic enrollment plan and inclusive of all students including resident, nonresident, graduate students, adult learners, corporate professional development and other populations.

- Develop tuition strategies to enable investment in academic programs and that can be adjusted to support demand. This includes differential tuitions, professional and online programs.

- Develop a template that areas can utilize to propose new/enhanced programs and that provides clear, measurable and comparable information so that these proposals can be assessed and prioritized.

- Engage the campus communities to identify and prioritize new revenue strategies.

3. **Assess the cost structure for administrative operations across the entire WSU system and recommend strategies to increase efficiencies and decrease costs.**

- Consider the goals of the strategic planning process and information obtained from the various studies on multi-campus systems and determine the initial steps to support a more efficient and effective administrative structure that takes advantage of the current strengths within the WSU system.

- Review administrative structures for the WSU system offices and campuses to determine if there are opportunities to define and better align system and campus roles and responsibilities.

  - Identify opportunities to streamline or eliminate duplicative administrative structures and spending at the campuses, executive units and colleges.

- Utilize an independent process to meaningfully measure administrative spend based on industry benchmarks and comparisons.

  - For example, **ABC Insights Administrative Benchmarking Consortium** for national public research and Pac-12 universities.

  - Benchmark administrative organizational structures and workloads to peer institutions and regional market data.

  - Utilize the **Delaware study**, **IPEDS**, and/or other national data organizations to establish baselines and benchmarks.

  - Leverage Workday to develop a robust data warehouse to define data and to utilize for data comparisons.

- Establish a process to assess how centralized/decentralized functions are organized to align authority and responsibilities. Clarify responsibilities for these activities, including oversight, monitoring and training on a system-wide basis and at each of the campuses, colleges, research and extension centers and units.

– Examine administrative costs versus instructional costs and make recommendations to align cost ratios with peer institutions.

4. Facilitate transparent and informative budget communications with the university community.

– Establish a website that presents key budgetary and financial information and dashboards and that provides links to policies and guidelines for budgeting activities.

– Develop a communications plan to share budget and fiscal health information and that provides a mechanism for input.

– Solicit suggestions from the greater WSU community about university budget matters.

– Include fiscal information in presentations and updates to the campus communities.

*WSU Executive Policy #1 *(established in 1998, and last revised in 2007)*

Budgets are allocated to individual units throughout the University to be managed by the unit administrators. Vice presidents, deans, directors, principal investigators and other administrators have both the authority and the responsibility to manage the budgets of the units they administer. Decisions to commit funds for personnel, equipment, laboratory and office supplies, telephone rental, or other resources are largely determined by the unit administrators.

Most budgets are soundly managed and solvent. Deficits in even a few accounts, however, can cause serious problems for the entire institution. The following policies are designed to prevent overspending.

1. Every administrator is responsible for all budgets within her/his area. Overdrafts are considered a serious personnel issue.

2. Areas are encouraged to maintain flexibility by holding reserves, by budgeting adequately for non-salary items, and (for academic areas) by using some temporary faculty.

3. When budget reductions or reallocations are made, units are encouraged to eliminate positions through attrition or reassignment of employees to vacant positions. Even when budgets are stable or growing, areas should review priorities for possible reallocation when vacancies occur.

4. Once budgets are set, area administrators are expected to cover all contingencies that occur within their areas.

5. "Spending an account into the red" is not acceptable unless the overdraft is guaranteed in writing from another account.

6. Training is available to administrators and their staffs on the use of on-line tools to track budgets.

7. Central offices will not process IRIs, purchase orders, and personnel actions on overdrawn accounts without approval of a vice president.

8. Periodically the Budget Office projects year-end balances for all areas. Projected deficits are reviewed with the areas in question to identify any additional information that might modify the projections, then forwarded to the appropriate vice presidents and the President. Areas are asked for plans to correct projected over-spending.

9. Any area completing a fiscal year with a negative balance is required to submit a written plan through the appropriate vice president to the Budget Office showing how the deficit is to be resolved and any debt repaid.

An area that has a deficit or is projected to have a deficit in any fund type is prevented from establishing a new position without a detailed written plan approved by the Budget Office showing how the deficit is to be resolved and the specific source of funds for the new position.