INFORMATION ITEM #1
Finance and Human Resource Modernization Initiative
(Stacy Pearson/Matt Skinner)

TO ALL MEMBERS OF THE BOARD OF REGENTS

SUBJECT: Finance and Human Resources Modernization (Finance and Human Resources Enterprise Resource Planning system replacement) Project Budget and Financing Plan

SUBMITTED BY: Stacy Pearson, Vice President for Finance and Administration

BACKGROUND INFORMATION: The attached documents are provided to the Institutional Infrastructure Committee for information and discussion purposes. The following documents will be presented as future action items at the Finance and Compliance Committee.

1. Finance and Human Resources Modernization (Finance and Human Resources Enterprise Resource Planning system replacement) Project Budget. (Attachment A)
2. Financing plan and proposed authorizing Resolution for financing of Finance and Human Resources Modernization. (Attachment B)

ATTACHMENTS: Attachment A
Attachment B
FUTURE ACTION ITEM #2
Finance and Human Resource Modernization Initiative Project Budget
(Stacy Pearson/Matt Skinner)

TO ALL MEMBERS OF THE BOARD OF REGENTS

SUBJECT: Finance and Human Resources Modernization (Finance and Human Resources Enterprise Resource Planning system replacement) Project Budget. (Pearson/Skinner)

PROPOSED: It is proposed that the Board of Regents approve two actions associated with the Modernization Initiative (replacement of core finance and human resources systems).

1. The Board of Regents approve the One-Time Project Budget with a not to exceed cost of $30,000,000 and authorize and delegate authority to the President or his designee to enter into any and all contracts necessary to complete the initiative within the budgeted amount.

2. The Board of Regents authorize and delegate authority to the President or his designee to enter into the appropriate agreement with Workday, Inc. to provide core finance and human resources software. The software costs will be paid for as part of the on-going costs budget. The on-going costs budget is presented for information purposes below.

SUBMITTED BY: Stacy Pearson, Vice President for Finance and Administration

SUPPORTING INFORMATION: Supporting information associated with the two requested actions is provided below. In addition, the attached document provides additional background on the Modernization Initiative.

Item One: One-Time Project Costs

The Finance and Human Resources Modernization (Finance and Human Resources Enterprise Resource Planning system replacement) will be accomplished with a one-time project budget will not exceed $30,000,000. The one-time project budget will cover costs such as engagement of a strategic integration partner (a consulting firm that helps configure the software to meet WSU needs and provide change management and training assistance), appropriate project contingencies and other costs.
Implementation, training, change management, quality assurance and other consulting or other services (including contingency) & 27,000,000  
Team training, temporary staffing, start-up, etc. & 3,000,000  
Total One-Time Cost Budget & 30,000,000  

**Source of Funds for One-Time Project Costs**

The one-time project budget will be covered with up to $30,000,000 in externally financed debt, to be repaid in no more than 22 years. Please see the financing future action item for additional information.

**Item Two: Software Contract with Workday**

Through a formal, competitive procurement process, WSU has named Workday, Inc. as the apparent successful vendor to provide the underlying core finance and human resources software for the University.

WSU is still negotiating the final terms and conditions with the software vendor. The not to exceed terms will be finalized for Board consideration with the action item at the June 2018 meeting.

Given the expected dollar value of the contract for Workday software, a delegation of authority from the Board to the President or his designee will be needed to enter into the agreement with Workday.

**On-going costs budget**

To provide context, the contract with Workday for software will be part of the on-going costs for the initiative. WSU anticipates a total on-going cost of approximately $7,000,000 per year associated with this initiative. These costs, include but are not limited to: annual software subscription costs, security, and authentication; dedicated project staffing, change management, training, functional service desk; and data conversion and testing software, and other costs. The annual on-going cost may change in future years, once the new system is stabilized, based on University budget actions, salary programs, inflationary cost changes, etc.

**Funding the On-Going Cost**

The on-going cost will be funded through a number of actions. Backup funding plans are in place as a contingency. The following table demonstrates how the funding sources will work together over multiple years.
Funding Sources | FY2019 | FY2020 | On-Going
---|---|---|---
1. Seed funding | 3,300,000 | 700,000 | 700,000
2. From Strategic Reallocation Pool | 1,500,000 | 700,000 | 0
3. Overhead rate on payroll and revenue generated by enrollment growth | 2,200,000 | 5,600,000 | 6,300,000
Total | 7,000,000 | 7,000,000 | 7,000,000

Upcoming Board Actions Associated with Modernization Initiative

The WSU Board of Regents has been actively involved in the Modernization Initiative through standing updates with the Infrastructure and Facilities Committee. Guidance and feedback provided by the committee has been instrumental to the successful planning of the initiative.

In June 2018, the Board will receive an information item and two action items associated with the Modernization Initiative as follows:

1. Information Item: Executive overview of the project plan and approach (as requested by the infrastructure and facilities committee). Presented by apparent successful implementation partner, Workday and WSU.

2. Two-Part Action Item:

   Part One: This part of the action item will request Board approval of the Finance and Human Resources Modernization Project Budget with a total one-time project cost not to exceed $30,000,000, with a delegation to the President or designee to enter into the necessary contracts to complete the project within the budgeted amount.

   Part Two: This part of the action item will request that the Board delegate authority to the President or his designee to enter into the appropriate agreement with Workday, Inc. for finance and human resources software as a service, with a specific not-to-exceed cost specified in the action item.

3. Action Item: Seeking Board approval and delegation to enter into the appropriate financing arrangements to fund the one-time implementation costs not to exceed $30,000,000.

ATTACHMENT A: Overview of Modernization Initiative
ATTACHMENT A

1 WHAT IS THE MODERNIZATION INITIATIVE

The Modernization Initiative is a university-wide effort to prevent system failure and improve support for WSU’s growing research and instruction activities through the replacement of our 38 year old mainframe system and processes.

2 WHY NOW

WSU’s payroll and finance system is over thirty years old, coded in a programming language no longer taught in school, and has no vendor support available. WSU faces a rapid decline in ability to support the system. This poses significant risk to the University’s ability to perform basic business functions.

While the risk has been growing due to years of inaction, awareness peaked in fall 2014 when a glitch in the legacy system halted payroll during the busiest pay cycle of the year, threatening to leave over 1500 employees unpaid. Fortunately, the system issue was fixed just in time for payroll to be processed. Unfortunately, the employee who fixed the issue retired in 2015. This event highlights the existing failure risk and growing vulnerability.

The need to ensure continuity of University operations demands immediate action. Given the three year window it will take complete the initiative, it is imperative that we take action now.

Recognizing a shared fiduciary responsibility to ensure continuity of University operations, the WSU Board of Regents asked WSU leadership to address this urgent need in a thoughtful and prompt manner. The effort has been underway since January 2016. The decision to proceed is driven by four key areas:

- Risk of system failure and noncompliance is at a critical level; threatening business continuity.
- Inability of existing systems and processes to support the university’s growing instruction, research and service mission statewide and around the globe.
- Outdated administrative processes and systems are layered, outdated and paper intense; creating barriers to entrepreneurial innovation and effectiveness.
- Lagging analytics and reporting capabilities hinder strategic decision making.

3 DESIRED OUTCOMES

The goals for the initiative include:

- Eliminate business continuity, failure and compliance risk associated with continued operation of legacy human resource, payroll and finance systems.
- Deploy modern, effective, and efficient human resource, payroll, and finance services based on industry best practices to support the growing academic and research enterprise.
- Replace inefficient paper based processes with intuitive online workflow on multiple devices.
- Enable real time analytics to support daily operations of the university at all levels.
Leapfrog traditional systems deployed in the last 20 years to a modern and nimble software service focused on business process design.

Empower users to perform critical work in a modern way on the device of their choice.

Work in a spirit of shared governance and open communication to effectively foster change.

Or simply said, the Modernization Initiative will:

4 WHEN WILL IT HAPPEN

5 HOW MUCH WILL IT COST

WSU estimates one-time implementation costs of $30M. These costs include engagement of a strategic integration partner (a consulting firm that helps configure the software to meet WSU needs), change management and training, and appropriate project contingencies.

WSU anticipates on-going costs of approximately $7.0M per year. These costs include: ERP software, hosting, security, and authentication, staffing, and user training and support.

6 FUNDING THE INVESTMENT

One-time costs of up to $30M will be funded with debt financing. The financing will be repaid using $3.1M in revenues that have covered key infrastructure investments that will soon be paid off. On-going costs of up to $7.0M will be covered with seed funds saved up over the last few years, investment from the strategic reinvestment pool, revenue from enrollment growth, and a new “payroll tax” assessed to units.
FUTURE ACTION ITEM #3
Finance and Human Resource Modernization Initiative Financing Plan
(Stacy Pearson/Matt Skinner)

TO ALL MEMBERS OF THE BOARD OF REGENTS

SUBJECT: Financing plan and proposed authorizing Resolution for financing of Finance and Human Resources Modernization (Pearson/Skinner)

PROPOSED: That the Board of Regents approve a General Revenue Bond Resolution to authorize the issuance and sale of bonds or other obligations, in one or more series, to be used for the Finance and Human Resources Modernization Project; with proceeds for the project not to exceed $30,000,000, a maximum term not to exceed 22 years, and a maximum interest rate not to exceed 5.5%; and delegate authority to the President or his designee to sell bonds, or other obligations including determining the final bond size, capitalizing interest, maturity schedule, redemption provisions and timing of sale.

SUPPORTING INFORMATION: The Board of Regents has legal authority to incur debt for various purposes through issuance of revenue bonds or notes (“obligations”) secured by general revenues of the University. Given the magnitude of one-time costs for implementation of the Finance and Human Resources Modernization (ERP), the University has developed a plan to fund the costs without impacting current operations or budgets.

The funding proposal is to incur General Revenue obligations to be paid from existing revenue currently used to pay debt service on bonds that will be retired over the next several years. Those retiring bonds are paid from University central funds, which have been committed for the purposes of key infrastructure investments in the past. The Regents will be asked at its June meeting to approve a Bond Resolution for this purpose, subject to certain parameters as described Appendix A herein.

Proposed Repayment Sources

The University currently makes payments on several series of bonds which are scheduled for final payment in 2022 and 2026.

- Debt service payments related to the veterinary teaching hospital to be paid off from 2019 to 2022, freeing up approximately $1.8 million per year for annual payments thereafter.
- Debt service payments related to the student information system to be paid off from 2019 to 2026, freeing up approximately $1.3 million per year for annual payments thereafter.

The following chart illustrates the annual revenues freed up by retirement of the veterinary teaching hospital and student information system obligations and the expected annual debt service for ERP. As shown in the chart, available revenues will fully cover future debt payment obligations.

Proposed Financing Structure

The proposed term of financing is estimated at up to 22 years, in order to ensure that the repayment is structured within the available revenues, as shown above.

The University, as advised by its financial advisor, will use taxable obligations rather than tax-exempt financing due to the nature of the “software” and other costs being financed, not all of which may be capitalized. In the current market, the difference between taxable and tax-exempt interest rates is approximately 0.25%.

Research and analysis by WSU and PFM found this structure offers a creative solution that balances the University’s fiscal recovery plan (i.e., reduction of operating losses) with the important need for this system modernization. It accomplishes the goal of
financing the ERP without increasing beyond current debt service commitments.

The following chart demonstrates the current annual debt service by year, and the change attributable to the ERP debt service.

![Chart showing debt service by year]

REQUESTED FUTURE ACTION

The Board of Regents will be asked, at its June meeting, to approve a Resolution to authorize the issuance of general revenue obligations for the project, in one or more series, and to delegate to the President or his designee the activities required for issuance of general revenue obligations to finance such system.

The delegated authority to incur the obligations will be conditioned on (1) a maximum issue size, to fund the project, capitalized interest and costs of issuance; (2) a maximum true interest cost (TIC); and (3) a maximum financing term, all of which will be specified in the Bond Resolution. Furthermore, the Resolution delegates authority to the President or his designee to approve the number of series, the method of sale, the final principal amounts, dates of the obligation, interest rates, payment dates, redemption provisions, and maturity dates, and other terms and conditions of the obligations.

APPENDIX A: PROVISIONS TO BE INCLUDED IN BOND RESOLUTION

Security Pledge:

The financing will be secured by General Revenue of the University, generally defined in the Resolution to mean all non-appropriated income, revenues, and receipts of the University if and to the extent such funds are not restricted in their use by law, regulation, or contract.
As noted above, debt service on the proposed financing will be paid from existing revenues currently used to pay debt service on retiring obligations. As the outstanding debt is retired, the revenues currently used for those payments will be allocated to debt service payments for proposed financing.

**Issue Size:**

The Resolution will provide for a maximum issue size, which will be determined as the amount required to finance the project costs, not to exceed $30,000,000 net proceeds, plus required financing costs and capitalized interest. Items that will affect the issue size to be contained in the Resolution are: (1) the project cost estimate; (2) potential for use of capitalized interest to reduce near term debt service burden; and (3) actual costs of issuance.

**Term/Maturity:**

The financing is expected to have a term of up to 22 years. The financing plan may be executed in more than one series, to align with outflows for the project for a total project cost not to exceed $30,000,000.

**Conditions Of Delegation:**

The delegated authority to incur the obligations will be conditioned on (1) a specified maximum issue size; (2) a maximum true interest cost (TIC); and (3) a maximum financing term, all of which will be specified in the Bond Resolution. Furthermore, the Resolution delegates authority to the President or his designee to approve the number of series, the method of sale, the final principal amounts, dates of the obligation, interest rates, payment dates, redemption provisions, and maturity dates, and other terms and conditions of the obligations. The authority to enter into the financing obligations will terminate on a date to be specified in the Bond Resolution.

**Timing of Issuance:**

Assuming authorization is received in June 2018, the University will be positioned to enter the marketplace by October 2018. The actual timing will be determined based on timing for project contracting, need for funds for the project, and market conditions.

**Method of Sale:**

The Resolution will delegate the method of sale, allowing for a negotiated sale, a competitive sale, or a direct bank placement.

**Bond Rating:**
At the time of public offering of bonds the University will apply for bond ratings from Moody’s Investors Service ("Moody’s") and S&P Global Ratings ("S&P"). Ratings are anticipated to be consistent with the University’s ratings for parity bonds, as this potential financing has been taken into account in recent bond rating updates.

The University’s general revenue bonds carry ratings of Aa3 (stable outlook) and A+ (stable outlook) from Moody’s and S&P, respectively, as affirmed in April 2018.

*Estimated Interest Rates:*

The Bond Resolution will include a maximum average interest rate ("true interest cost" or "TIC"). Current rates are estimated at 3.9% and the planning rate for the debt service shown in this document has been based on interest rates 0.75% above current market as a cushion for interest rate changes. As mentioned above, the University seeks the authority to sell the bonds in one or more series and requests flexibility for this and future series to have a maximum interest rate of 5.5%.

*Estimated Debt Service:*

Debt service will be structured to fit within the available revenues, and will increase annually through 2026, then level out at approximately $3 million per year, 2027 through 2041.

*Other Covenants:*

Parity obligations will be secured by the General Revenues of the University, and the Bond Resolution does not include additional covenants, coverage tests, or reserves.

*University’s Advisors:*

Bond Counsel: K&L Gates (Cynthia Weed)
Financial Advisor: PFM Financial Advisors (Susan Musselman and Thomas Toepfer)