

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.

MODERNIZATION INITIATIVE

- 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.