

MINUTES

**UNIVERSITY OF WASHINGTON
BOARD OF REGENTS**

Finance and Asset Management Committee

November 9, 2017

**Jane Russell Commons, William W. Philip Hall,
University of Washington Tacoma**

Call to Order and Attendance

Committee Chair Regent Rice called the meeting to order at 10:15 a.m.

Committee Members present: Regents Rice (Chair), Ayer, Blake

Committee Members absent: Regent Harrell

Other Regents present: Regents Goddard, Jaech, Riojas, Tamaki

Others present at the table: President Cauce, Provost Baldasty, Treasurer Scott, GPSS President Kim, ASUW Tacoma President Dubad, Faculty Senate Chair Way

Approval of Minutes and Consent Agenda

Regent Rice announced that, hearing no objections, the minutes from the Committee meeting on October 12, 2017, were approved, as distributed.

Approve Internal Audit Planned Activities for 2018 and Internal Audit Charter (Action) (Item No. F-1)

Research Vessel Thomas G. Thompson – Approve Increase in Contract Value (Action) (Item No. F-2)

Regent Rice announced that, hearing no objections, items F-1 and F-2 would appear on the full Board's consent agenda. She noted that Regent Blake could speak about Item F-1 during her report later in the meeting.

See Attachments F-1 and F-2.

Treasurer of the Board Report (Information) (Item No. F-3)

Treasurer Scott reported that Fiscal Year 2017 had seen a tightening of the University's operating margin. He stated that reported first quarter results, which exclude certain affiliates, saw revenue increase by \$55 million and expenditures increase on-target by \$20 million. The Controller's office is refining this calculation to include more units in future quarterly reports, although this will remain difficult until the implementation of a new financial reporting platform.

Capital and Debt Report (Information) (Item No. F-4)

Mike McCormick, Associate Vice President, Capital Planning and Development, gave his report. He stated that the North Campus Housing project showed red on the scorecard because there could be no formal budget correction without Regental guidance. There were yellow and red indicators on the Burke Museum project, but it is now hoped that construction delays will be made up after the state capital budget has been passed.

Mr. McCormick reported that business equity metrics would be presented differently in the future. Presently, the basis for that column is cost-to-date, a lagging indicator. The goal is to focus on forecasting, to include all tiers of contracting, particularly subcontracting, and to report the number of firms so as to capture better the impact of his team's efforts.

Chris Malins, Associate Vice President, Treasury Office, reported on the fixed-income portfolio: the expected rise in the interest rate next month should increase short-term rates 10 basis points, increase rates for commercial paper by between 90 basis points and 1 percent, and decrease long-term rates, presently at roughly 3.6 percent, by about 20 basis points.

Mr. Malins commented that proposed federal tax bills could eliminate the advance refunding of bonds, which has reduced the UW's costs in the past. Current rates are locked for \$2.4 billion of outstanding debt. \$126 million of commercial paper will be refunded in January, when the \$266 million bond issuance approved by the Board in July will for the most part refund 2011 bonds and reimburse expenditures funded with commercial paper. Total debt outstanding will therefore remain flat.

See Attachment F-4.

Approve Financial Stability Plan (aka Project FIT) for UW Medicine (Action) (Item No. F-5)

Mr. Malins stated that UW Medicine's Financial Stability Plan entailed the suspension of the covenants required by the University's Internal Lending Program (ILP).

Paul Ramsey, CEO, UW Medicine, Executive Vice President for Medical Affairs, Dean of the School of Medicine, introduced his unit's Project FIT, standing for Financial Improvement and Transformation. Dr. Ramsey stated that changes in healthcare and in reimbursement are driving the ongoing transition to value-based care across the healthcare industry. To succeed in this rapidly changing environment, UW Medicine must deliver on its business plan and make transformational changes across all UW Medicine entities.

Jacqueline Cabe, Chief Financial Officer, UW Medicine, and Vice President for Medical Affairs, stated that UW Medicine had a loss of 1.5 percent in Fiscal Year (FY) 2017. Although this loss was covered by reserves, ILP requirements were not met and required the submission of a three-year financial stability plan. This FIT plan offers more than that, a transformation of UW Medicine and a movement towards greater accountability and financial fitness within it. UW Medicine has an improvement goal of \$158 million in FY 2018. UW Medicine is on budget for the first quarter of FY 2018. Thus, the early results are promising if not conclusive.

Paul Hayes, Interim Chief Health System Officer, UW Medicine, continued, stating that UW Medicine has goals of 2 percent improvement in FY 2018 and 3 percent improvement in FY 2019. It will achieve these goals through revenue generation, focusing on clinical growth including maximizing patient volumes and developing post-acute care capacity, and enhancing its revenue cycle. UW Medicine will seek efficiency and cost savings, including developing a master plan for its property portfolio. UW Medicine will also continue to improve the infrastructure supporting transformation of care, including the electronic health record.

Asked about ReCon Strategy's recommendations concerning clinical networks presented to the Board in July and September 2017, Dr. Ramsey responded that the UW Medicine Accountable Care Network is doing well, including a new four-year contract with Boeing that begins on January 1, 2018. The FIT plan is conservative in the assumptions made about potential new clinical activity that may be derived from the network.

Asked about how UW Medicine's leadership was gaining employee buy-in, Mr. Hayes answered that the socialization of top managers to Project FIT had already begun. His unit, Harborview Medical Center, was a different place six months ago from what it is today and will be a very different place in six months. The goal is

to prepare staff for change, to be transparent about why change is occurring, to track progress, and to clarify the role of each employee in driving that change.

Regent Blake observed that the UW Medicine Board's Finance and Audit Committee had very diligently examined the FIT plan. Ms. Cabe has created dashboards summarizing key indicators for each hospital. All eyes are on performance with respect to Project FIT's targets.

Regent Riojas commended all the hard work on this thorough plan.

Regent Blake moved, Regent Ayer seconded, and the Finance and Asset Management Committee approved the Financial Stability Plan (aka Project FIT) for UW Medicine, as presented.

See Attachment F-5.

Semi-Annual Borrower Reports (SABRes) for UW Medicine (Information) (Item No. F-6)

Mr. Malins stated that SABRes are typically reported to the Board in October. These are being reported in November because they are being paired with UW Medicine's Financial Stability Plan/Project FIT. The projections in each SABRe are included in Project FIT.

Ms. Cabe stated that UW Medicine is changing its reporting to convey its greater degree of system-ness. It will continue to present separate SABRes for UW Medical Center and for Northwest Hospital and Medical Center, but will also present a SABRe for the combined UW Medicine clinical enterprise, as it is doing today.

Asked why Valley Medical Center was not included, Ms. Cabe responded that, like Harborview Medical Center, the structures of a district or county hospital require that it report separately. Nor will the School of Medicine be included in the clinical enterprise until the new enterprise resource management system is in place.

See Attachment F-6.

Financial Performance Update for the School of Dentistry (Information) (Item No. F-7)

Provost Baldasty stated that all solutions for the School of Dentistry's financial situation aim to continue to serve its mission while reducing an accumulated and growing deficit of \$36 million. The goal is financial viability and the preservation of quality.

James Johnson, Interim Dean of the School of Dentistry, was chair of the endodontics department from 2003 to 2016. He emphasized his School's excellence and stated that its financial situation required immediate action. Admitting that he had only been dean for somewhat more than two weeks, Dean Johnson asked Sarah N. Hall, Associate Vice Provost, Office of Planning & Budgeting, to report on the School's finances.

Ms. Hall stated that five steps had been taken since last March: a Financial Executive Committee had been formed, a Solution Team had been formed to incorporate faculty perspectives, consultants had been engaged, she and Provost Baldasty had communicated constantly with members of the School of Dentistry, and discussions with the School's elected Faculty Council were ongoing.

The solution to the School's deficit rested on five pillars: making the Pediatric Dentistry Program financially sustainable; adjusting administrative pay within the School; ensuring that the Faculty Practice Plan only paid out when there were surpluses to justify this; securing greater Medicaid payments for qualified services; and retraining faculty members for greater focus on teaching and research.

Provost Baldasty added that the University had engaged in a zero-based budgeting exercise for each entity within the School of Dentistry to ensure budgetary consistency and fairness. He observed that this year's deficit is predicted to amount to between \$10 and \$16 million. As a result, admissions to programs with significant shortfalls had been suspended rather than closed, at Dean Johnson's request. Provost Baldasty nevertheless instructed the School of Dentistry to stop increasing its deficit.

Dean Johnson reported that the faculty council was reviewing the Faculty Practice Plan and would present a new plan to the Financial Executive Committee in mid-December. The Solution Team was reviewing the Doctor of Dental Surgery curriculum and the distribution of faculty workload required to sustain it. He emphasized that the School is returning to its roots: preparing world-class dentists for their careers and for service to the community.

Asked how the School would reconcile its mission of education with its mission of social service while achieving financial stability, Dean Johnson answered that he would not oversimplify, affirming that the School must focus on education in order to survive. Provost Baldasty added that Apple Health reimbursement rates were inadequate to sustain the School's social mission. Undercompensated care is a major problem.

Asked which mission is causing greater losses, Provost Baldasty stated that the problem has to do with faculty workload and efficiency.

Asked about the appropriate time-frame for addressing this growing deficit, Dean Johnson said that each unit has different but strict timelines. Some have already moved to action.

Asked about student involvement, Dean Johnson reported that he is attempting to involve the entire school, in part through student forums he plans to lead. President Cauce observed that it may be difficult for health sciences professional students to devote six to ten hours per week to budget matters on the model of the student councils she created for undergraduates when she was provost.

See Attachment F-7.

HR/Payroll Modernization Program Post-Implementation Review (Information) (Item No. F-8)

Dave Anderson, Executive Director, Health Sciences Administration, explained that the reports distributed with the meeting materials were required by the State at the close of the HR/Payroll Modernization Program (HRPM). Regent Rice stated that the reports were welcome.

Mr. Anderson thanked the Board and senior campus leaders for their supportive attitude to enterprise implementation, especially with respect to the pause and reset of HRPM in early 2016. Workday has delivered an excellent return on the investment. There have been challenges, but the UW is nevertheless an exemplar of enterprise resource management implementation in a large, complex university environment.

Aaron Powell, Interim Vice President and Chief Information Officer, UW Information Technology, conveyed three lessons from the HRPM implementation:

- i. it is necessary to balance the scope and the budget of such a project;
- ii. Workday is an end-to-end product requiring collaboration between siloed institutional units; and
- iii. one should never underestimate the amount of change and communication required within an institution.

He expected to apply these lessons during the upcoming Finance Transformation project so as to carry out a faster, less disruptive transition.

Mr. Scott stated that the success of HRPM is a tribute to both Mr. Anderson and Mr. Powell.

Asked by President Cauce when the campus community, particularly its faculty, might be comfortable with Workday, Mr. Powell responded that this depended on one's perspective but would probably be achieved within six months to a year. For the moment, the Integrated Service Center (ISC) team was focused internally, fixing bugs with Workday, but will soon shift its focus externally to helping the campus community better integrate the new system.

See Attachment F-8.

UW Finance Transformation Update (Information) (Item No. F-9)

Ann Anderson, Associate Vice President, Enterprise Services, presented the item. She stated that Mr. Powell and Mr. Anderson will be intimately involved in this implementation. The Finance Transformation team and Deloitte Consulting have developed a plan that incorporates the lessons of the HRPM implementation. The UW's current financial reporting system is almost fifty years old. Many of the programmers expert in the COBOL programming language will soon retire. These non-integrated business applications require daily repairs. Integrating data from them takes an army of analysts who spend more time chasing than using data. As a result, deficits can be difficult to identify and to define. The University's tighter margins therefore make Finance Transformation imperative.

Ms. Anderson related that the transition to Workday Finance will have consequences across the University. Its general ledger structure requires more financial expertise in campus partners to input data correctly. She suggested training in accounting best practices for campus finance associates. With respect to UW Medicine, which already lives in two different financial systems, the "Big Bang" transition, in which the entire campus moves to Workday Finance at once, will be easier.

Ms. Anderson sees the next step in systems modernization as the replacement of the University's thirty-five-year-old student information system.

See Attachment F-9.

Audit Advisory Committee (AAC) Update (Information) (Item No. F-10)

Kristi Blake, Regent and Chair of the Audit Advisory Committee, reported on what she felt to have been a very productive meeting of the Audit Advisory Committee. The committee's staffing has been reorganized, the meeting materials were very good, and committee members felt that they are making a positive impact on audit plans. The University has completed three of six phases in the update of its internal controls. Phase 4 is a risk assessment.

With respect to financial reporting, committee members made thirty comments to improve the consolidated financial statement included in the state's general financial report in October. The committee will meet in December to review KPMG's audit of the University's consolidated financial statement, which will be submitted to the Board for approval in January. The committee has sent out checklists of best accounting practices to campus units, suggesting opportunities for improvement.

Candidates for the position of Vice President for Finance will be interviewed next week.

Sue Camber, Associate Vice President and Controller, added that the presentation of the University's consolidated financial statement will be moved from January to November for the current fiscal year.

See Attachment F-10.

Adjourn

Hearing no other business to come before the Committee, Regent Rice adjourned the Finance and Asset Management Committee meeting at 12:09 p.m.

Approved at the meeting of the Committee on January 11, 2018.