

OPENING REMARKS TO ASU SYSTEM BOARD OF TRUSTEES
By System President Chuck Welch

HOW DID WE GET HERE?

1ST CALL FOR ASSISTANCE IN SUMMER 2019—HAD NO IDEA OF THE DEPTH AND COMPLEXITY OF PROBLEMS FACING THE UNIVERSITY

WE HAD NO IDEA THAT THE \$6M BORROWED FROM THE STATE WOULD BE SPENT ALMOST IMMEDIATELY TO CLEAR UP PAST OBLIGATIONS

AUGUST 2019 MOU—WE FOUND A UNIVERSITY THAT WAS LITERALLY ON THE BRINK OF CLOSING ITS DOORS

WE FOUND A UNIVERSITY DOWN TO ONE WEEK OF RESERVES WITH EXPENSES FAR OUTPACING REVENUES

WE FOUND A FINANCIAL AID OFFICE THAT WAS INCREDIBLY FAR BEHIND IN PROCESSING STUDENTS FOR A FALL SEMESTER THAT BEGAN IN A FEW SHORT WEEKS

WE FOUND A SELF-INSURED HEALTH INSURANCE PLAN THAT HAD A ZERO FUND BALANCE AND NO PLAN FOR HOW TO HANDLE LARGE CLAIMS

WE FOUND BUDGETS WITH OVERSTATED REVENUES AND UNDERSTATED EXPENSES

WE FOUND EMPLOYEES WHO WERE CURRENTLY WORKING, BUT WERE NOT EVEN LISTED IN THE BUDGET

WE FOUND MASSIVE PROBLEMS WITH STUDENT ACCOUNTS RECEIVABLES

WE FOUND BILLS TO VENDORS THAT HAD NOT BEEN PAID OR EVEN ENTERED FOR PAYMENT

WE FOUND DEBTS THAT HAD BEEN INCURRED ON THE CAPITAL PROJECTS SIDE, WITH PAYMENT DUE, BUT WITH NO STRUCTURE IN PLACE FOR HOW TO PAY FOR THOSE DEBTS

WE FOUND INFORMATION AND DATA ABOUT INSTITUTIONAL FINANCES AND PROCESSES THAT WERE INCOMPLETE AT BEST AND INCORRECT AT WORST

WE FOUND A UNIVERSITY THAT HAD THE LOWEST NET TUITION REVENUE OF ANY IN THE STATE OF ARKANSAS AND THE HIGHEST PERCENTAGE OF BUDGET SPENT ON SCHOLARSHIPS OF ANY IN THE STATE

WE FOUND A UNIVERSITY WHOSE BOND RATING HAD BEEN DOWNGRADED TWICE BY MOODY'S INVESTOR SERVICES

WE LITERALLY FOUND A UNIVERSITY THAT HAD MASSIVE PROBLEMS IN MOST EVERY AREA OF FINANCIAL AND FINANCIALLY-RELATED OPERATIONS

WITH THE ASSISTANCE OF CAMPUS OFFICIALS, WE IMMEDIATELY HAD TO MAKE CUTS OF APPROXIMATELY \$3.5M

WE LITERALLY WENT LINE BY LINE THROUGH THE BUDGET TO FIND THOSE CUTS—UNFORTUNATELY, WE QUICKLY FOUND THAT STAFFING LEVELS WERE A PRIMARY DRIVER IN THE COST OVERRUNS AND WOULD HAVE TO BE ADDRESSED

THE INITIAL \$3.5M IN CUTS INCLUDED:

- SALARY INCREASES THAT HAD JUST BEEN GIVEN A COUPLE OF MONTHS PRIOR
- REDUCTIONS IN ALL EMPLOYEE RETIREMENT CONTRIBUTIONS
- CUTS TO PROGRAM BUDGETS SUCH AS SUPPLIES AND SERVICES AND TRAVEL

AND WE WERE STILL NOT CONFIDENT THIS WAS ENOUGH AS WE WERE NOT ABLE TO TRUST THE BUDGET NUMBERS THAT EXISTED

IN THE SPRING OF 2020 WE EMBARKED UPON A SEARCH FOR A PERMANENT CHANCELLOR WHILE WE CONTINUED WORKING TO RESOLVE SOME OF THESE CRITICAL CHALLENGES

WE WERE MAKING PROGRESS IN MANY AREAS, BUT EVERYONE REALIZED, AND WE SAID PUBLICLY ON MANY OCCASIONS, THAT THIS WOULD BE A LONG-TERM RECOVERY

THERE WERE NO QUICK FIXES

THEN THE PANDEMIC HIT AND EVERYONE WAS SENT HOME FOR MONTHS

THIS OBVIOUSLY SLOWED DOWN OUR EFFORTS IN A NUMBER OF AREAS

WE SUSPENDED THE SEARCH FOR OUR CHANCELLOR AND BROUGHT IN A ONE-YEAR INTERIM JUST TO GET US THROUGH THE PANDEMIC

OUR WORK TO SHORE UP PROCESSES AND DO A DEEP ANALYSIS INTO BUDGETARY MATTERS WAS SEVERELY CURTAILED EVEN AFTER OUR EMPLOYEES WERE ABLE TO RETURN TO CAMPUS, MUCH ATTENTION HAD TO BE GIVEN TO PROTOCOLS FOR DEALING WITH THE VIRUS AND THE INTERNAL CHANGES THAT HAD TO OCCUR

WE WERE NOT ABLE TO FOCUS OUR ATTENTION SOLELY ON THE FINANCIAL CRISIS FACING THE UNIVERSITY—WE WERE NOW IN SURVIVAL MODE IN MORE WAYS THAN ONE

THEN THE FISCAL IMPACT OF THE PANDEMIC REALLY BEGAN TO SURFACE

WE LOST ENROLLMENTS, WE LOST HOUSING REVENUES, WE LOST FOOD SERVICE REVENUES, AND WE LOST OTHER REVENUE SOURCES DIRECTLY RELATED TO OUR INABILITY TO OFFER A FULL ARRAY OF UNIVERSITY SERVICES

THESE REVENUE LOSSES CONTINUED INTO THIS CURRENT FISCAL YEAR, JUST AS THEY DID FOR MANY UNIVERSITY CAMPUSES ACROSS THE NATION

FORTUNATELY, WE DID RECEIVE FEDERAL STIMULUS FUNDING TO HELP OFFSET THESE LOSSES

HOWEVER, THESE FUNDING SOURCES DID NOT ADDRESS THE UNDERLYING STRUCTURAL CHALLENGES THAT FACED THE UNIVERSITY EVEN BEFORE THE PANDEMIC

THE STIMULUS FUNDS WERE SIMPLY TEMPORARY BAND-AIDS TO GET US THROUGH THE PANDEMIC

EVEN WITH THE PANDEMIC, HOWEVER, THERE HAVE BEEN MONUMENTAL ACCOMPLISHMENTS AT HENDERSON

SINCE 2019, THE FOLLOWING IS JUST A SMALL SAMPLING OF THINGS ACCOMPLISHED AT HENDERSON:

- INTERNAL AND EXTERNAL AUDITS OF UNIVERSITY PRACTICES AND POLICIES
- COMPLETE RESTRUCTURING OF THE BUSINESS OFFICE AND MANY FINANCE PROCESSES

- COMPLETE RESTRUCTURING OF FINANCIAL AID RESULTING IN FASTER PROCESSING TIMES, AND A REDUCTION IN AUDIT FINDINGS FROM 15 TO 1
- COMPLETE RESTRUCTURING OF ADMISSIONS AND RECRUITING—AS OF WEEK BEFORE LAST, FALL 2022 ADMISSIONS NUMBERS ARE ENCOURAGING
- TRANSITION OF HENDERSON'S HEALTH PLAN TO THE ASU SYSTEM HEALTH PLAN, SAVING MONEY FOR THE INSTITUTION AND MANY EMPLOYEES WHILE PROVIDING MUCH GREATER FINANCIAL STABILITY
- TRANSITIONED THE UNIVERSITY TO A MORE MODERN ERP SYSTEM TO ALLOW FOR GREATER OPERATIONS AND EFFICIENCIES FOR OUR STUDENTS AND EMPLOYEES
- HENDERSON IS NOW PARTICIPATING IN MULTIPLE ASU SYSTEM SHARED SERVICES OPPORTUNITIES TO SAVE MONEY AND INCREASE EFFICIENCIES
- A COMPREHENSIVE STUDENT AID REVIEW WAS COMPLETED AND HENDERSON'S SCHOLARSHIP PROGRAM WAS OVERHAULED TO PROVIDE GREATER IMPACT TO MORE STUDENTS WHILE ALSO INCREASING NET TUITION REVENUE FOR THE UNIVERSITY
- UNDER THE LEADERSHIP OF PEOPLE LIKE JULIE BATES, RITA FLEMING, AND BERNADETTE HINKLE, WE NOW HAVE A BUDGET THAT IS COMPLETE, ACCURATE AND UNDERSTANDABLE. THIS WAS ABSOLUTELY NOT AN EASY UNDERTAKING
- THE UNIVERSITY ENGAGED IN AN ENERGY PERFORMANCE CONTRACT IN AN EFFORT TO REDUCE UNANTICIPATED CRITICAL MAINTENANCE COSTS THAT WERE SIGNIFICANTLY HARMING THE INSTITUTIONAL BUDGET
- NEGOTIATIONS WITH THE LEGISLATURE WERE SUCCESSFUL TO PROVIDE FOR A DELAYED PAYBACK OF THE \$6M ADVANCE WITH NO INTEREST
- MULTIPLE UNIVERSITY CONTRACTS WITH EXTERNAL VENDORS HAVE BEEN, OR ARE BEING, RENEGOTIATED TO PROVIDE SAVINGS AND LESS EXPOSURE FOR THE UNIVERSITY
- ANALYSES OF UNIVERSITY DATA RELATED TO REVENUES AND EXPENSES HAS BEEN SIGNIFICANTLY UPGRADED FROM PRIOR ANALYSES
- MOODY'S INVESTOR SERVICES CHANGED HENDERSON'S OUTLOOK FROM NEGATIVE TO STABLE WITHIN DAYS OF HENDERSON JOINING THE ASU SYSTEM
- JUST A FEW WEEKS AGO, MOODY'S DECLARED THAT ANY REFINANCING OF BONDS (EXPLAIN) FOR HENDERSON WOULD BE DONE WITH THE RATING OF THE ASU SYSTEM

- THIS WAS AFTER THE FINANCIAL EXIGENCY DECLARATION—MOODY’S SPECIFICALLY REFERENCED FINANCIAL EXIGENCY AND SAID “IT ADDRESSES COST CUTS THAT ARE NECESSARY TO REMEDIATE **A FUNDAMENTAL STRUCTURAL IMBALANCE.**”

I REALIZE THAT THIS RECITATION OF THE LAST THREE YEARS MAY SEEM UNNECESSARY FOR SOME WHO ALREADY KNOW ALL OF THESE UNFORTUNATE DETAILS

HOWEVER, I THINK IT IS IMPORTANT THAT WE ALL REALIZE JUST HOW CRITICAL THE SITUATION IS AND THAT MAJOR STEPS HAVE TO BE TAKEN TO HELP THIS UNIVERSITY SURVIVE, RECOVER AND PROSPER

MANY PEOPLE ACROSS THIS NATION ARE CURRENTLY ADDRESSING THE HIGHER EDUCATION MODEL AS BROKEN AND UNSUSTAINABLE, AND IN MANY INSTANCES IT IS

WE MUST REALIZE THAT IF THE OVERALL MODEL OF HIGHER EDUCATION IS FLAWED, THAT HENDERSON’S SITUATION IS FAR WORSE THAN THAT OF THE VAST MAJORITY OF INSTITUTIONS

I AM HEARTBROKEN AT THE DEPTH OF THESE RECOMMENDATIONS AND THE IMPACT IT WILL HAVE ON SO MANY LIVES

THIS CAMPUS WAS MY HOME...I KNOW MANY OF THESE PEOPLE WHO WOULD BE AFFECTED AND I LOVE THEIR FAMILIES...THIS IS HARD AND IT HURTS

AT THE SAME TIME, I KNOW THAT HENDERSON MUST SURVIVE AND MUST CONTINUE TO SERVE OUR STATE AS SHE HAS FOR 132 YEARS

NOT ONE PERSON INVOLVED WANTED THIS DAY TO COME, OR EVEN FOR THESE DISCUSSIONS TO HAVE TO OCCUR, BUT THE COMBINATION OF WHERE HENDERSON WAS IN 2019, AND THE NEGATIVE IMPACT OF THE PANDEMIC, MADE THESE DISCUSSIONS NECESSARY

I HAVE HAD MULTIPLE INDIVIDUALS ASK WHY WE DON’T JUST GET MORE MONEY FROM THE LEGISLATURE OR PRIVATE DONORS

I CAN ASSURE ALL THAT WE HAVE DISCUSSED HENDERSON’S SITUATION AT LENGTH WITH LEGISLATORS AND WITH DONORS

THERE IS NOT AN APPETITE FOR ONGOING ASSISTANCE AND ONE-TIME GIFTS WOULD ONLY TEMPORARILY SOLVE ISSUES AND WOULD NOT ADDRESS THE UNDERLYING UNSUSTAINABILITY OF THE HENDERSON MODEL

OUR ONLY TWO OPTIONS WERE TO MAKE THE HARD RECOMMENDATIONS NECESSARY TO KEEP THE UNIVERSITY OPEN, OR TO DO NOTHING AND SEE THE UNIVERSITY CEASE TO BE A STAND-ALONE INSTITUTION. THE LATTER WAS NOT AN OPTION.

FINALLY, I WANT TO ADDRESS THE QUESTION OF WHY DID THIS TAKE SO LONG AND WHY WEREN'T THESE CUTS MADE BEFORE?

FIRST, IT TOOK A CONSIDERABLE AMOUNT OF TIME JUST TO DECIPHER THE LEVEL OF ISSUES FACING THE UNIVERSITY—I HAVE NEVER IN MY CAREER SEEN CHALLENGES SO DEEP AND COMPLEX

SECOND, IT TOOK AN INCREDIBLE AMOUNT OF TIME TO ADDRESS EACH ISSUE AND DEVELOP PLANS FOR HOW TO RESOLVE THE CHALLENGES

THIRD, OUR EFFORTS WERE INTERRUPTED BY AN UNPRECEDENTED PANDEMIC THAT SEVERELY SLOWED DOWN OUR WORK

FOURTH, WE HAD TO HAVE DATA THAT WE TRUSTED WAS COMPLETE AND ACCURATE

AND FIFTH, WE HAD TO DO A COMPREHENSIVE AND IN-DEPTH ANALYSIS OF INSTRUCTIONAL SPEND TO ENSURE THAT DECISIONS WERE BASED ON DATA AND NOT ANECDOTE OR EMOTION

I ALSO WANT TO POINT OUT THAT TODAY'S DISCUSSIONS AND RECOMMENDATIONS ARE PURELY RELATED TO INSTRUCTION AND FACULTY POSITIONS AS A RESULT OF REQUIREMENTS IN THE FACULTY HANDBOOK

HENDERSON'S NON-INSTRUCTIONAL STAFF AND NON-ACADEMIC UNITS HAVE ALSO ENDURED CUTS IN RECENT YEARS AND MONTHS

NON-INSTRUCTIONAL STAFF, NON-ACADEMIC UNITS (INCLUDING ATHLETICS) WERE REQUIRED TO TAKE FURLOUGH LEAVE IN 2020

HENDERSON HAS REDUCED THE NUMBER OF STAFF MEMBERS AND HAS REDUCED NON-ACADEMIC BUDGETS MULTIPLE TIMES SINCE 2019

HOWEVER, THESE CUTS AND CHANGES DO NOT REQUIRE DIFFERENT LEVELS OF APPROVAL, SO THAT IS WHY THEY ARE NOT INCLUDED TODAY

I WANT TO PUBLICLY THANK THE EMPLOYEES OF HENDERSON STATE WHO HAVE WORKED TIRELESSLY THE PAST FEW YEARS TO HELP US STABILIZE THE UNIVERSITY AND PREPARE FOR THE FUTURE

I KNOW HOW HARD IT HAS BEEN FOR THESE INDIVIDUALS AND HOW MUCH THIS HAS HURT THEM FINANCIALLY AND EMOTIONALLY, BUT THEY CONTINUED TO PUSH FORWARD BECAUSE OF THEIR LOVE FOR, AND BELIEF IN, HENDERSON STATE UNIVERSITY

WE ARE CERTAINLY NOWHERE NEAR WHERE WE WANT TO BE, BUT THE INSTITUTION HAS MADE MONUMENTAL IMPROVEMENTS SINCE 2019

I ALSO WANT TO PUBLICLY THANK OUR STAFF AT THE ASU SYSTEM WHO HAVE WORKED SO HARD TO ASSIST HENDERSON. THERE IS NO DOUBT IN MY MIND THAT THE UNIVERSITY WOULD HAVE STRUGGLED EVEN MORE WITHOUT THE EXPERTISE, SUPPORT AND COUNSEL OF OUR INCREDIBLE TEAM.