

October 27, 2017

Dianne E. Ray
State Auditor
Office of the State Auditor
1525 Sherman Street, 7th Floor
Denver, CO 80203

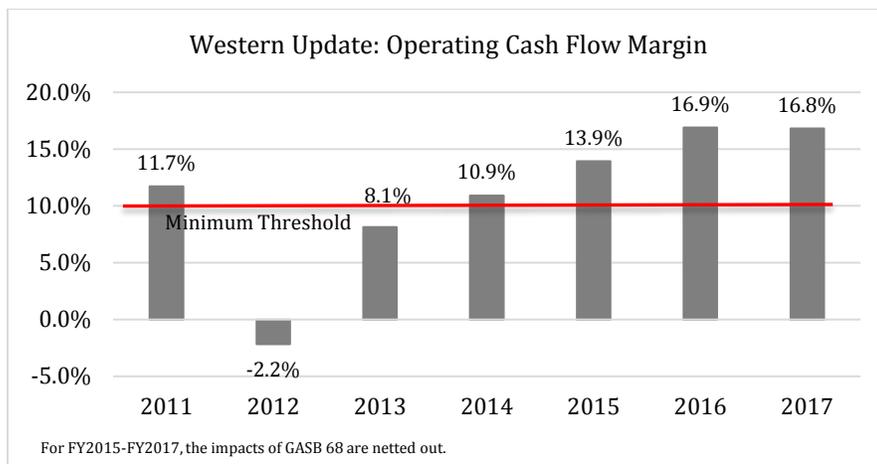
Ms. Ray,

Thank you for the opportunity to provide an update to the performance evaluation conducted last February by the Office of the State Auditor and Huron Consulting. In your letter addressed to me on July 25, 2017, you requested a status update on a number of issues and key conclusions addressed in the evaluation. We are happy to report that Western continues to make considerable progress on a number of fronts, including areas of financial sustainability and enrollment. Below are some brief updates on the areas requested in your letter:

1. Operating Cash Flow Margin.

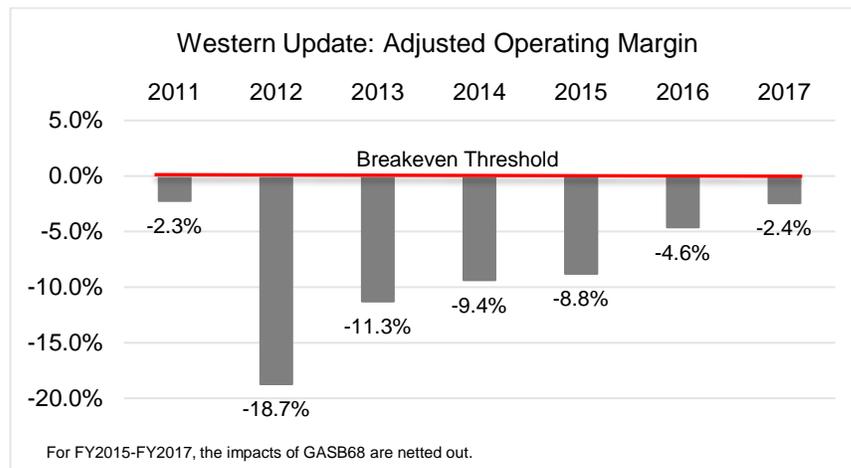
The operating cash flow margin is a ratio that indicates our ability to generate cash to cover our operating expenses before accounting for depreciation and interest expense. Netting out the impacts of GASB 68, Western’s operating cash flow was \$9.0 million in FY2017, a growth of \$0.6 million from FY2016 levels. This increase constitutes a cash flow of \$3.0 million above FY2015 levels which is at the top end of the range recommended in the report—demonstrating that Western continues to make strong progress toward financial stability.

As shown below, Western’s FY2017 cash flow margin (again, netting out the impacts of GASB 68) remained strong at 16.8%. This margin is well above the recommended threshold of 10%, indicating that Western continues to generate sufficient revenues to cover our operating expenses.



2. Adjusted Operating Margin.

The adjusted operating margin measures accrual-based operating results and includes in its calculation both depreciation and interest expense. Netting out the impacts of GASB 68, Western's adjusted operating margin in FY2017 was -2.4%, a marked improvement over recent years.



As we have done in the past, Western will continue to explore opportunities to re-finance debt if and when interest rates and structure can result in substantial present value savings for the University. As mentioned in our response to the performance evaluation, we have structured our institutional budget to dedicate approximately \$400,000 annually towards deferred maintenance. For our size of institution, this is a substantial allocation that will help us address key needs on an annual basis and has the potential to reduce Western's requests on limited state resources for controlled maintenance.

3. Capital Plans and Priorities.

In May 2017, Western received legislative spending authority for the possible construction of an engineering school. The project would be completely funded by private dollars that would include not just construction of a new facility but also funding for operational expenses. The University is completing a study on the feasibility of delivering a successful program in select areas of engineering and will present this study to the potential donor in the near future. An engineering school at Western fits within our mission to deliver professional degrees, is consistent with our newly changed selectivity status and holds the potential to significantly elevate our reputation and prestige.

Beyond this potential project, Western has not had significant changes to our capital plans and priorities since the February 2017 hearing. Housing shortages within the Gunnison valley continue to be of primary concern for Western as we try to attract and retain quality faculty and staff, and we are currently assessing different funding options with our Board of Trustees and Foundation Board. Ideal would be partnership with a private developer in order to minimize Western's cash contribution to the project and impacts to our financial ratios.

4. Student Enrollment and Tuition Strategies.

Western's final enrollment numbers for FY2017 included a total headcount of 2,908 and a full-time equivalent count of 2,345. These enrollment figures represented an increase of 6.4% and 4.8%,

respectively, from FY2016. In fact, Western’s FTE percentage growth represented the second largest among all public higher education institutions in Colorado.

Western Update: Enrollment

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	% Change 2010-11 to 2016-17
Undergraduate Student FTE	1,961	1,866	1,865	1,925	1,941	1,994	2,030	3.5%
Graduate Student FTE	116	161	158	171	208	244	315	171.6%
Total Student FTE	2,077	2,027	2,023	2,096	2,149	2,238	2,345	12.9%

Source: Integrated Postsecondary Education Data System (IPEDS) and Western State Colorado University.

As we begin the process of building our new strategic plan, enrollment growth will remain our top priority. But we are not waiting for completion of the strategic plan to begin working on this – we have already done so. We are already engaged in or will soon be engaged in the following:

- Personal high school visits from senior Western administrators (including the president) focused heavily on the Front Range.
- Stepped up offerings of scholarships for higher performing students.
- New digital marketing platform to better manage internet ad buys and provide better yield management.
- Expanded target marketing segmentation and messaging capabilities, including program-level targeting and out-of-state prospective student modeling and sourcing.
- Expanded use of social media to provide a constant stream of news to promote Western and reach prospective student audiences.
- An expanded recruiting team completing more in person appointments at schools and conferences both in state and out of state.
- Stepped-up promotion of our new 3+2 program in combination with our environmental studies program.
- Examination of possibility for adding highly popular sports (e.g., women’s lacrosse).
- Integration of a new CRM program for more effective candidate management.
- Development of a new recruiting presentation highlighting the benefits of our highly personalized, student-focused, liberal arts culture.
- Established a University Retention Committee aimed at enhancing retention and graduation rates to improve advising, registration processes, and early alert outreach for at-risk students.

5. Academic Program Assessment.

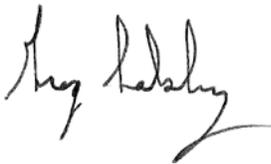
Western finalized development of an academic program cost model this past spring and presented the information to the Board of Trustees. Traditionally, the administration has tracked academic program costs and productivity by discipline and has used this information annually as a factor in allocating budgets to the academic departments. The newly established model provides more depth on revenue sources which allows for the University to calculate net income by academic discipline. This will be important information as we continue discussions and development of the next strategic plan.

6. Strategic Plan Update.

As mentioned in our previous report, our current strategic plan comes to a close mid-2018. We will have our new strategic plan in place prior to that time. As mentioned Western has received a commitment from a donor toward a potential new engineering program, and we hope to use that contribution as a catalyst for additional fundraising. Accordingly, our new strategic plan, the donation, and the capital campaign surrounding it are all interconnected. Our hope is that together they will facilitate significant positive transformation for Western both in academic reputation and financial stability. Since we last reported, we have met with the potential donor several times and the interest is still high. Further, we are nearing completion of our second feasibility study for the new program.

There are a number of exciting opportunities on the horizon for Western that we are poised to seize. Important to all of this is continued partnership with the state, particularly in the area of funding. Even while we continue to grow our resources through enrollment growth and fundraising, state appropriations, both in the form of operations and capital, are a fundamental component in delivering successful programs at Western. We appreciate the recognition within both the executive and legislative branches of the importance of higher education in the long term economic and social vibrancy of the state and look forward to working together to ensure that the investments that make this possible continue.

Sincerely,

A handwritten signature in black ink, appearing to read "Greg Salsbury". The signature is fluid and cursive, with a long horizontal stroke at the end.

Greg Salsbury, President
Western State Colorado University