University of Hawai'i, Board of Regents, 2444 Dole Street, Bachman 209, Honolulu, HI 96822
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Notice of Meeting

UNIVERSITY OF HAWAI'I

BOARD OF REGENTS COMMITTEE ON BUDGET AND FINANCE

Date: Wednesday, April 6, 2016

Time: 10:30 a.m.

Place: University of Hawai'i at Mānoa
Information Technology Building
1st Floor Conference Room 105A/B
2520 Correa Road
Honolulu, Hawai'i 96822

AGENDA

I. Call Meeting to Order

II. Approval of Minutes of the February 11, 2016 Meeting

III. Public Comment Period for Agenda Items: All written testimony on agenda items received after posting of this agenda and up to 24 hours in advance of the meeting will be distributed to the board. Late testimony on agenda items will be distributed to the board within 24 hours of receipt. Registration for oral testimony on agenda items will be provided at the meeting location 15 minutes prior to the meeting and closed once the meeting begins. Written testimony may be submitted via US mail, email at bor@hawaii.edu, or facsimile at 956-5156. Oral testimony is limited to three (3) minutes.

IV. Agenda Items

A. For Information

1. Update on University of Hawai'i FY 2017 Budget Planning
2. Review of FY 2016 Legacy Endowment Distributions

V. Adjournment

FY17 Budget Plan Process

April 6, 2016

Budget and Finance Committee

Introduction

1. Budgets to be established at campus level and will be treated as a projected spending plan.
2. Second-year evolution of BOR approving budgets for campuses.
3. Will be the basis for FY17 quarterly financial reports.
4. Account for select high-level expenditures and revenues by type.
5. Goal is to increase transparency and accountability in establishing variance reporting criteria.

Information

1. Worksheets will be asked for anticipated revenues via general fund appropriation and tuition & fees revenue by quarter.
2. Worksheets will ask for anticipated expenditures:
   - Salaries
   - Utilities
   - Scholarships, Tuition, Stipends, and Allowances
   - Other expenses
3. Worksheets will be constructed at the campus level.

Current status

1. Campuses received budget worksheets and instructions on April 1.
2. Because of the nature of the Legislative Session, appropriation levels will not be known until end of the month.
3. In the meantime, campuses are working on other areas
   - Non-general funds
   - Projecting enrollment, utility costs, etc.

Process Timeline

Narrow window of 60 days to finalize budget plans before submittal to Board of Regents. Window of less than 2 weeks after legislative appropriations are known in early May.

DATE	
April 1, 2016	Worksheet and instructions distributed to campuses.
May 1, 2016	Projected date for general fund appropriation communicated to campuses
May 5, 2016	Closing of Legislature
May 11, 2016	Materials to BOR B&F Committee
May 18, 2016	BOR B&F Committee
June 2, 2016	Board of Regents Meeting Approval
July 1, 2016	Start of Fiscal Year (FY17)

Components

Components will be utilized in FY17 quarterly reports

- Budget-to-Actual
- Variance explanations

REVENUE	EXPENDITURES	BY QUARTER
General Fund Appropriation	Salaries	Other periods considered: • By semester (Fall, Spring, Summer) • Semi-Annual
Tuition & Fees	Utilities	
RTRF	Equipment	
Other Special Funds	Scholarships, waivers, allowances	
Other Revolving Funds	Other expenses	

New for FY17

1. Budget by Quarter
2. “Other Non-General Funds” split to “Other Special” and “Other Revolving”
3. Act 236 (TFSF Sweep at end of FY) implementation
4. Performance Based Funding
5. Format similar to Quarterly Financial Reports – campus level

FY17 Issues

1. Act 236 implementation (TFSF Sweep) beginning July 1, 2016
   - Campuses assumed to begin FY with unencumbered TFSF balance of $0
   - At end of FY, campuses will transfer TFSF balances to Systemwide Support
   - At beginning of FY, Systemwide Support to transfer TFSF cash to campuses
   - Difficult to predict ending balance in TFSF at start of FY
2. Performance funding
   - To be conservative, budget plans will not include performance funding at this time
3. Collective bargaining funding & other legislative appropriations
   - For FY17, there are known collective bargaining increases
   - Legislative funding is expected for appropriation measures
   - Outcome may not be known before budget plan submittal to BOR

Legacy Endowment Fund

Board of Regents Budget and Finance Committee Meeting
April 2016

Legacy Endowment Funds Overview

- Legacy Endowment is separate and different from UH Foundation
- Corpus was received prior to the UH Foundation establishment in 1956
- Funds are currently managed by UBS Financial Services
- Investment asset allocation is based on Board policy 8.207

	Minimum	Maximum
Equities	30 %	70 %
Fixed Income	30 %	70 %
Floating Rate Securities	0 %	20 %
Municipal Bonds	0 %	10 %
High Yield Bonds	0 %	20 %
Cash	0 %	40 %

- Portfolio valued at $64 million as of 12/31/2015
- The University President is authorized to approve an endowment distribution of up to 5%
- The distribution percentage was 4.5% for the last four years

Legacy Endowment Funds Overview

3 types of Legacy Endowment Funds:

Permanent Endowments

- Funds received from donors with the stipulation that the principal be maintained in perpetuity for purposes specified by the donor.
- Under BOR policy 8.207 Annual payout rate shall not exceed 5% based on a five-year moving average of market values at fiscal year end and . Payout is scheduled as close to the actual expenditures as practicable to maximize the amounts retained and invested.

Restricted Quasi-Endowments

- Donor-restricted gifts, without the requirement to maintain the principal in perpetuity.
- Under BOR Section 8.212, payout of income earned shall not exceed 6% of the market value of the Fund on June 30 of the preceding year. Rate is normally set at the same rate as the Permanent Endowments.

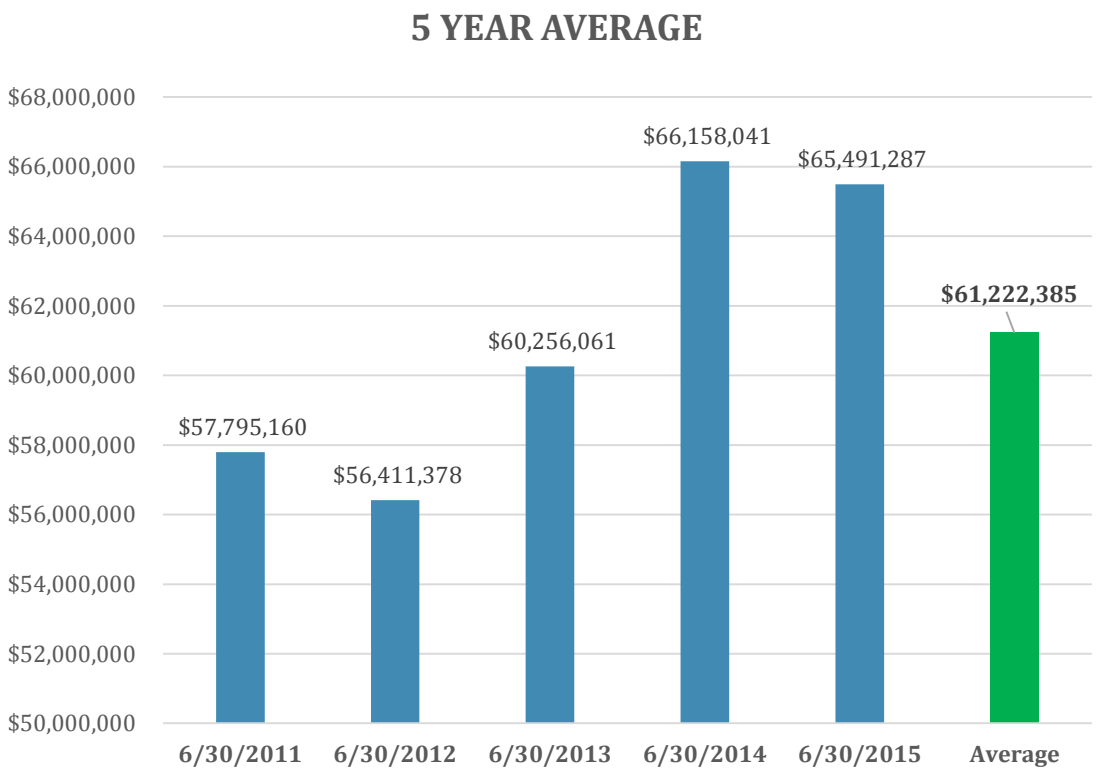
Unrestricted Quasi-Endowments

- Funds that the Board of Regents, rather than a donor, has allocated for long-term investment purpose.
- Annual payout rate is applied to Athletic scholarship for Mānoa and Hilo and the Maui Community College scholarship.
- Maximum fixed amount of $486,000 for Regents and Presidential Scholarships, $25,000 for Boar of Regents Awards, $50,000 for President's projects, and $60,000 for investment monitoring fee.

Endowment Distribution Process

Accounting provides a 5-year rolling average of the market value of the endowment as of 6/30 each year.

INVESTMENT	MARKET VALUE					
MANAGER	6/30/2011	6/30/2012	6/30/2013	6/30/2014	6/30/2015	Average
Pool-Bank of Hawaii	$ 7,043,233	$ 11,672,512	$ 13,631,808			$ 6,469,511
Pool-KCM Investments	$ 4,551,906	$ -	$ -			$ 910,381
Pool-Bank of Hawaii	$ 4,413,607	$ 12,731,352	$ 19,282,814			$ 7,285,555
Pool-Neuberger Berman	$ 18,560,622	$ 10,733,989	$ 12,113,106			$ 8,281,543
Pool-NWQ Investment Mgmt	$ 18,515,404	$ 17,209,149	$ 15,228,333			$ 10,190,577
Pool-Brendes Invtmt Partners	$ 4,657,998	$ 4,011,388	$ -			$ 1,733,877
Pool-BOH#3	$ 52,390	$ 52,988	$ -			$ 21,076
Pool-UBS Financial Services	$ -	$ -	$ -	$ 66,158,041	$ 65,491,287	$ 26,329,866
TOTAL	$ 57,795,160	$ 56,411,378	$ 60,256,061	$ 66,158,041	$ 65,491,287	$ 61,222,385



Endowment Distribution Process (cont.)

- A comparative chart outlines the different distribution payouts based on the various allocation percentage rates

Allocation	2016 5.00%	2016 4.75%	2016 4.50%	2016 4.40%	2016 4.25%	2015 4.50%
Restricted Funds Payout	$ 1,458,850	$ 1,385,930	$ 1,312,970	$ 1,283,760	$ 1,239,940	$ 1,254,580
(primarily for Scholarships)						
Unrestricted Funds Payout						
Athletics – Mānoa	$ 518,300	$ 492,390	$ 466,470	$ 456,110	$ 440,560	$ 441,000
Athletics - Hilo	$ 155,490	$ 147,720	$ 139,940	$ 136,830	$ 132,170	$ 132,300
Maui College Scholarships	$ 15,050	$ 14,290	$ 13,540	$ 13,240	$ 12,790	$ 13,000
Regents & Presidential Scholarships	$ 486,000	$ 486,000	$ 486,000	$ 486,000	$ 486,000	$ 486,000
President's Projects	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000
BOR Awards - Faculty & Staff	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000
Monitor Fees	$ 60,000	$ 60,000	$ 60,000	$ 60,000	$ 60,000	$ 60,000
Total Unrestricted Payout	$ 1,309,840	$ 1,275,400	$ 1,240,950	$ 1,227,180	$ 1,206,520	$ 1,207,300

Endowment Distribution Process (cont.)

- President as authorized will approve the Restricted and Unrestricted percent payout
- Accounting sends an annual letter to respective Fiscal Administrators
  - Inform them of endowment income available for spending
  - Fiscal Administrators in consultation with Program Administrators will request the amount they wish to be distributed
- Before current year distributions are made, in accordance with APM A8.622, annual spending reports for the prior year distributions are required and collected by Accounting
- Accounting will compile amounts and request UBS Financial Services to liquidate the assets and make the cash transfer from the endowment account to the operating account for spending
- Campuses spend the money based on the donors' stipulation or the Board's designation

UH Legacy Endowment Distribution FY2015 and FY2016

($ in thousand)

	FY 2015 Max Payout Authorized at 4.5%	FY 2015 Actual Payout	FY 2016 Max Payout Authorized at 4.5%	FY 2016 Actual Payout as of 2/29/2016
Board Designated Funds				
Athletics – Mānoa	$441	$441	$466.5	$466.5
Athletics – Hilo	132	132	140	140
Regents and Presidential Scholarship	486	486	486	408
Maui College Scholarships	13.5	13.5	13.5	13.5
President's Projects	50	50	50	50
Awards – Faculty & Staff	25	20	25	20
Endowment Monitor Fees	60	0	60	0
Donor Restricted Funds	1,255	998	1,313	1,091
Total	**2,462.5**	**2,140.5**	**$2,554**	**$2,189.6**

Payout Purposes

($ in thousand)	FY 2015	FY 2016 as of 2/29/16	Note
Scholarships	$ 990	1,053	Engineering scholarship - $271K; UH Mānoa Athletics - $441K; UH Hilo Athletics - $132K
Regents and Presidential Scholarship	486	408	Stipends for 20 Regents scholars & 10 Presidential scholars; one time travel grant of up to $2K per scholar.
Faculty & Staff Awards	20	20.5	BOR Excellence in Teaching, in Research; BOR Willard Wilson Distinguished Service Award, and President's Award for Excellence in Building & Grounds Maintenance.
President Projects	50	50	Funding projects throughout the University System at the President's discretion in amounts not to exceed $15K per project.
Research	51	71	
Academic Support	310	328	College of Natural Sciences operations - $321K
Faculty Support	199	204	College of Natural Sciences chair support - $192K
JABSOM	30	50	
Others	4	4.5	
Total	**$2,140**	**$2,189**	