MINUTES

BOARD OF REGENTS’ COMMITTEE ON BUDGET AND FINANCE MEETING

February 13, 2015

I. CALL TO ORDER

Committee Chair, Jan Sullivan, called the meeting to order at 9:01 a.m. on Friday, February 13, 2015, at the University of Hawai‘i, Bachman 113, 2444 Dole Street, Honolulu, Hawai‘i 96822.

Committee members in attendance: Committee Chair Jan Sullivan; Committee Vice Chair Barry Mizuno; Regent Coralie Matayoshi, Regent Lee Putnam, Regent Pete Hoffmann.

Others in attendance: Regent Stanford Yuen, Regent Helen Nielsen, Regent Simeon Acoba, (ex officio committee members); President David Lassner; Vice President for Legal Affairs and University General Counsel Darolyn H. Lendio; Vice President for Research Vassilis Syrmos; Vice President for Budget & Finance/Chief Financial Officer Kalbert Young; UH Mānoa Interim Chancellor Robert Bley-Vroman; UH Hilo Chancellor Don Straney; Executive Administrator and Secretary of the Board of Regents Cynthia Quinn; and others as noted.

II. APPROVAL OF THE MINUTES OF THE JANUARY 8, 2015 MEETING

Regent Matyoshi moved and Regent Hoffmann seconded the motion to approve the minutes of the January 8, 2015 meeting, which was unanimously approved.

III. PUBLIC COMMENT PERIOD

Executive Administrator and Secretary of the Board Cynthia Quinn announced that the Board Office received no written testimony, and no individuals had signed up to give oral testimony.

IV. AGENDA ITEMS

1. Discussion on Research Indirect Cost Rates

VP Syrmos explained that Research Indirect Cost Rates—which are also known as the Facilities & Administrative (F&A) costs rate for extramural funds—is the percentage the university charges for extramural contract funds so the university can be reimbursed for certain expenses. The F&A rate for the last negotiation cycle was 36% and the current F&A rate is approximately 41% to 42%. He noted that the money collected from the F&A rate is deposited into the Research Training & Revolving Fund (RTRF), the use of which is governed by statute. The RTRF within the UH System has traditionally been allocated with 25% to the Office of the Vice President for Research & Innovation, and 75% to the campuses that generate the research.
Director of the Office of Research Services Yaa-Yin Fong provided a powerpoint presentation on the status of the Research Training and Revolving Funds (RTRF) process, including: the Facilities & Administrative (F&A) costs rate, the purpose of the F&A rate, the F&A research rate formula, and the history of recent negotiated F&A Rates for UH Mānoa and Kaka’ako research on campus; how the modified total direct costs (MTDC) are calculated, the facilities costs and administrative costs allocation bases, and additional costs that increase the research base; the primary reasons for rate increases in Fiscal Year 2011; not permitted or “corrections” made by the Health & Human Services Region Negotiators, and the units/labs selected by the Department of Health & Human Services Space Site Audit; the timeline for next rate proposal, the key factors that could impact the UH research expenditures base, short and long term strategies, peer rate comparison, and examples of recoverability of cost impact for buildings or major renovations.

VP Syrmos said the university was targeted a 46% F&A rate for the next negotiation cycle, but was not sure if they would be able to get it. He noted that research at the university has been vibrant and successful over the past 4 decades. Kaka’ako is competitive with peers at a 52% F&A rate, but Mānoa, at a 41% rate, is not competitive. He said his goal was to increase the research enterprise of the university and the RTRF money has been an integral part of achieving that goal.

The Budget & Finance Committee raised concerns that: the F&A rate was historically low in comparison to peer institutions; a rate increase requires more investment in research; an increase in funding does not help the F&A rate, the institution needs to reinvest in order to raise the rate; the appropriateness of allocation percentages between system and campus; the difficulty of seeking accelerated depreciation cost recovery when operating and maintenance expenditures do not reflect such acceleration; the need for appropriate and careful classification of expenses such as equipment and space utilization to increase RTRF; the impending 2016 deadlines for proposal, expenditures, inventory, space survey update, and occupying buildings in 2017 and 2021, and groundbreaking by December 2016; the RTRF only being applicable to salaries, equipment, and space paid by federal grants and not philanthropic or privately funded research.

The Budget & Finance Committee noted that this topic was relevant because members need insight on how accurately the university is recovering actual costs. Measuring UH against comparable institutions helps determine a reasonable and healthy F&A rate. The expenditures on Operations & Maintenance (O&M) need to be accurately captured to account for what is research versus what is institutional or administratively related. Major fixed equipment in research intensive buildings also needs to be captured in a systematic way to ensure it is accounted for correctly and can be justified. In addition, expenses need to be reported and appropriately classified in a uniform chart of accounts for the base year, so things are accurate and there is clear justification required to avoid discounting. The university also needs to invest in buildings where they are actually doing funded research. The last investments in buildings that do actual federal funded research were the Center for Microbial Oceanography: Research & Education (C-
MORE) Hale in 2010 and the Pacific Ocean Science & Technology (POST) building, which was over 20 years ago.

The committee noted that the RTRF funds are not being used to reimburse monies used to pay overhead, but are instead treated as a revenue source rather than an expense reimbursement, yet the cost recovery is based on recovering expenses. The committee recognized the need to provide incentives to invest in the research by reimbursing expenses, but noted that Mānoa is in a state of budget crisis and the committee needs to know how all RTRF monies are being spent. The university also needs to prioritize on how they can reimburse the General Fund and tuition monies that were used for research expenses that should be reimbursed by the RTRF. The committee instructed that there be more transparency on what the RTRF balance is being spent on because regents are going to the Legislature asking for more money and several legislators have made inquiries regarding the RTRF balance, so the regents need sufficient information to intelligently answer those questions.

Vice Chancellor for Administration, Finance & Operations Kathy Cutshaw added that this fiscal year will be the first time RTRF will contribute $500,000 of the utility bill to cover a portion of utility costs that supported research.

2. **Update on UH Mānoa Tuition Allocation Model**

VC Cutshaw gave an oral presentation on the status of the UH Mānoa (UHM) tuition allocation model. The UHM budget and process and allocation committee has been charged to determine a model that provides transparent allocations of regular tuition and is more in line with the teaching mission, with minimal disruption to units when rolled out. Committee membership is diverse with representation from faculty, ASUH and GSO, deans and directors, and vice chancellors. The committee adopted values and principles that will be used to formulate the model around quality education to students, multiple missions, transparency and accountability, and stewardship.

The committee reviewed three models and will be recommending a hybrid version that utilizes revenue based budgeting as a foundation, incorporates aspects of an activity-based budgeting, and ensures transparency of overhead costs and central support functions. The hybrid model allows for flexibility to recognize size and differential costs and will have a built in reserve function to make up the differences. This model adds in a base budget without undermining programs.

The new methodology will require identifying resource streams and agreeing on metrics and percentage weights and activity measures that encourage collaboration and rewards, incentivize good behavior and are linked to the strategic plan. It will also require identifying cost centers; developing data systems to capture information and administrative expertise to analyze the data; and realigning administrative and budgetary authority.

VC Cutshaw indicated that implementing a program is challenging in an environment of declining resources. The initial charge was to be finished by the end of fiscal year 2014, but the deadline was extended to the end of fall 2015. If the committee’s
recommendation is adopted by the chancellor, the bridge plan is to roll out a transition phase in July 2015 to realign existing unit-based budgets and adjust General Funds and tuition so that each unit gets a percentage of tuition aligned with output. At present, 38% of net tuition has gone to instructional units, but that figure is historically based and not based on output. Tuition does follow students and a portion of increased tuition revenues will be allocated back to units based on Student Semester Hours, degrees awarded and number of measures.

The Budget & Finance Committee raised concerns regarding implementation cost; impact on the operating budget; the need to address cost and revenue differences among units; and the need to have the money go to units with the most students because those areas are the most stressed. The committee clarified that discussions of the proposed model were information only, but would impact the operating budget that the Board is approving in May. The committee indicated that the model needs to build in activity-based rewards according to strategic plan achievements and future needs in terms of technology, and construction needs to be considered as part of central reserves planning.

VC Cutshaw clarified that professional schools were not being reevaluated at this time. The professional schools (law school, MBA school, nursing school, and medical school) receive 85% of tuition, with the philosophy being because these schools charge more tuition, they get to keep more.

Committee Chair Sullivan extended appreciation for the work of administration and recognized the complexity involved. She concurred that the model should reward efficiency and cost savings, but also give weight to quality of education and rewards based on a broader scale of qualitative measures, even though difficult. She indicated that the more transparent, the more helpful it would be to change. She also encouraged administration to establish clear guidelines, transparent and thoughtful measures.


VP Young reviewed the Quarterly Financial Report for the UH System that included 4 slides providing a high level general summary and overview and analysis of revenues, expenditures, and cash balances for the period July 1, 2014 to December 31, 2014. He reported that expenditures are $11.5 million lower than last fiscal year due to increased collective bargaining expenditures that have constrained other expenditure categories. The campus level expenditures are favorable, and aggregate expenditures are generally on target, but vary by campus. The unencumbered cash balance levels are down $4 million on a system-wide level. Larger unencumbered cash balances were reported for UH-Hilo, UH-West O‘ahu and the community colleges, and lower unencumbered cash balances were reported for Mānoa and the system. He highlighted that quarter 1 and quarter 2 accounted for 80% of projected annual revenues, but expected quarter 3 and quarter 4 expenditures to continue on trend, resulting in declining unencumbered cash balances for the remainder of the fiscal year. President Lassner said that overall revenues are higher than projections and expenses are lower. The overall bleeding was much larger in previous years, and while it is down, there is still an annual bleed. He indicated that this is the final year of the salary payback, which will help some units get back into the positive. The target reserve level per executive and board policy is between
5% to 16%, or the equivalent of 2 months of operating expenditures. Depending on the program, there is varying levels of compliance with some programs closer to 16% and a few programs that could finish below the 5%.

The Budget & Finance Committee raised concerns regarding sensitivity of a level cash balance and assumed increased rate of expenditure with overall revenue balance expected to decline, but at a lower rate than previous years. The committee requested administration to provide a simplified dashboard and red flagging problems on financial reports to identify potential crises.

It was noted this was the first report of its kind that captured information across all sources of funding. VP Young noted some of the improvements they made were adding footnotes and adding an appendix containing definitions. He added that this new report is evolving and they hope to make it more transparent and intuitive.

V. ADJOURNMENT

There being no further business, on the motion of Regent Matayoshi and second by Regent Mizuno and with unanimous approval, the meeting was adjourned at 11:11 a.m.

Respectfully Submitted,

/S/

Cynthia Quinn
Executive Administrator and
Secretary of the Board of Regents