

MINUTES

BOARD OF REGENTS' JOINT MEETING OF THE COMMITTEES ON BUDGET & FINANCE and PLANNING & FACILITIES

SEPTEMBER 2, 2015

I. CALL TO ORDER

Joint Meeting of the Committees on Budget and Finance and Planning and Facilities Chairs Jan Sullivan and Ben Kudo, respectively, called the meeting to order at 12:31 p.m. on September 2, 2015 at the University of Hawai'i at Mānoa, Information Technology Building, 1st Floor Conference Room 105A, 2420 Correa Road, Honolulu, Hawai'i 96822.

Committee on Budget and Finance members in attendance: Committee Chair Jan Sullivan; Committee Vice Chair Barry Mizuno; Regent Wayne Higaki; Regent Coralie Matayoshi; Regent Michael McEnerney.

Members excused: Regent Simeon Acoba; Regent Lee Putnam.

Committee on Planning and Facilities members in attendance: Committee Chair Ben Kudo; Committee Vice Chair Stanford Yuen; Board Vice Chair Jan Sullivan; Regent David Iha; Regent Jeffrey Portnoy; Regent Michelle Tagorda; Regent Ernest Wilson, Jr.

Others in attendance: Regents' Chair Randy Moore; Board Vice Chair Eugene Bal (ex-officio committee members); President David Lassner; Vice President for Academic Affairs Risa Dickson; Vice President for Administration Jan Gouveia; Vice President for Community Colleges John Morton; Vice President for Legal Affairs and University General Counsel Carrie Okinaga; Vice President for Research Vassilis Syrmos; Vice President for Budget & Finance/Chief Financial Officer Kalbert Young; Interim UH Mānoa (UHM) Chancellor, Robert Bley-Vroman; UH Hilo (UHH) Chancellor, Don Straney; Executive Administrator and Secretary of the Board of Regents Cynthia Quinn; and others as noted.

II. APPROVAL OF MINUTES OF THE AUGUST 5, 2015 COMMITTEE ON BUDGET & FINANCE MEETING AND THE AUGUST 5, 2015 COMMITTEE ON PLANNING & FACILITIES MEETING

Regent Mizuno moved to approve the August 5, 2015 Committee on Budget & Finance meeting minutes, Chair Moore seconded the motion, and the minutes were unanimously approved.

Committee Chair Kudo moved to approve the August 5, 2015 Committee on Planning & Facilities meeting minutes, Regent Wilson seconded the motion, and the minutes were unanimously approved.

III. PUBLIC COMMENT PERIOD

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

Before beginning agenda items, VP Gouveia introduced the new Office of Capital Improvements staff, including Director of Capital Improvements Todd Kanja, Architect and Project Manager Bruce Teramoto, Manager of Design Build Sherman Wong, Manager of Construction, Ross Richards, and Special Project Coordinator Carroll Takahashi.

IV. AGENDA ITEMS

A. Fourth Quarter Financial Report for Fiscal Year Ending June 30, 2015

Administration provided a PowerPoint presentation (Attachment 1) summarizing the Quarterly Financial Report for Fiscal Year Ending June 30, 2015 which was distributed earlier to the regents. The presentation included a general summary and overview and analysis of Tuition & Fee Special Fund (TFSF) Ending Balances, Revenues, Expenditures, Actual Revenues vs. Expenditures for FY15 and FY14, a summary conclusion and forward.

The general summary for FY15 showed effectively no fiscal imbalance at the individual campus level aggregated for all revenue types, with the exception of UHH where revenues were slightly less than overall expenditures by a modest \$300,000.

The ending TFSF balances relate to the operating budget and spending plan approved by the regents for FY16, and show all campuses for the most part finished on target with projections, if not slightly better, except for UHM which was down by \$22,000, which is not significant. UHH was down by just under \$1 million, but has a substantial reserve levels. All other campuses performed better than estimated.

All campuses ended with higher TFSF revenues than FY14, which was expected due to increased tuition rate that was forecasted when the FY15 budget was constructed. The amount of projected revenues for FY15 for each individual campus were actually close to actual, except at the System level, which was \$11 million less than the projected \$971 million revenue stream, due primarily to the \$11 million in other special fund revenues at UHM. Other special funds are a very large conglomeration of a number of special fund revenue areas. Other special and revolving funds at the System level nominally missed projections by 8% and 9% respectively.

The actual results for FY15 expenditures were significantly less than revenues. Expenditures came in at \$79 million less than projections. They would need to analyze each campus to determine if there were any expenditure items where campuses did not expend on items that could have derived additional revenues to see if there was any correlation between the \$11 deficit in expenditures and the reduction in expenditures. The System did not expend as much as forecasted, which helped offset short performance of revenues.

When looking at revenues vs. expenditures for all sources of funds on all campuses, performance of revenues at the System level was approximately 3.4% across all funds, compared to an actual reduction in expenditures of 2.74% systemwide. These figures are at the aggregate level of all funds and are not specifically for TFSF, revolving funds or RTRF. Overall performance was good for FY15 as campuses performed generally in alignment with projections. The overall financial performance of the system is improving and getting stronger. The numbers are not audited on Generally Accepted Accounting Principles (GAAP) basis, but indicate GAAP is likely positive because the decline is waning, if not improving, due to proactive management of expenditures. Looking forward, there is a need to build reserve levels at all campuses except UHH. The quarterly financial reporting format is less than optimal or desirable from a business officer's perspective, but an improvement from the past. There will be continual improvement on what the report looks like starting with the FY16 Q1 report, but with some limitations on what the system and processes at the university can provide.

The committee commented that is was encouraged because the deficits have stopped, and is very pleased with UHM's performance. The next step is to look to develop management tools to assess if management techniques are working and the level of impact on the operating budget, such as matching every expense category to the period budgeted. The committee recognized the dramatic shift from current practice, but FY16 approved budget is a step in direction and aligns with goals set by the Regents. The committee recognized the great strides and hard work of administration, and suggested consideration of a special agenda item, on the impact of cutting expenses on quality of education and human resources, and where it is occurring. Administration added that the financial systems will be upgraded in FY16 and reflected in FY 2017 to provide more information such as nature of expenditures, variance granularity, and deferrals of expenditures to determine actual savings and not impact quality. The current report is more of a trending report that compares current figures to what was allocated, with the goal to have an actual budget upon which to determine savings. UHM continues work on restructuring and internal allocation methodology to report in November with goals to decrease and prioritize expenditures to move forward.

Administration reported that all the external agencies for bonds have noted declining performance on reserves, fiscal problems for the flagship campus, industry trends in reduction in enrollment, affordability of industry with tuition increases, and growing long term liabilities not being addressed (e.g., pension, fringe costs, debt, rate of issuance and diminishing state funding). UH is recognized for having stronger than average state

support (30%), which is enviable across the nation, although that support has been declining over the last five to ten years. Feedback received from the rating agencies recognized that the historical decline in revenues has waned, but agencies note that five years of decline and one year of improvement is not an indicator of how an institution will perform in the future. Thus, it appears that the UH is at status quo with agencies, but the agencies are looking more optimistically at management, governance, and Board support of direction. The rating is challenged because UHM is the largest campus and has poor reserve performance, and the university needs to execute on that to demonstrate improvement.

B. Approach for Supplemental Budget Proposals

- 1. Operating Budget**
- 2. Capital Improvement Projects**

Administration presented an update on the supplemental budget process and a timeline that will involve the board approving a supplemental budget submittal to the executive branch. FY17 proposals may include some new initiatives as new budget items which are supportive of specific performance based funding initiatives. The schedule is targeting review over the next two weeks to validate and vet proposals, which coincides with the construction of the CIP request. Generally, the approach is to continue to look to General Obligation bonds as primary funding for new capital project construction, meet capital renewal needs, and address deferred maintenance levels in the short term. Beyond FY17 Administration is considering more diverse funding strategies to meet all the university's capital funding needs, while recognizing the increasing challenge of securing state-supported funding and balancing the potential for increased cost to the university and students, which coincides with the new tuition schedule and new biennium. An upcoming joint meeting is anticipated for late September for board approval at the October board meeting in order to timely submit the final proposal to the State Department of Budget & Finance.

C. Systemwide Master Plan for Academic Programs and Facilities

This Systemwide Master Plan was discussed by both the Committee on Planning & Facilities and the Committee on Academic Affairs. Administration was tasked with assisting in drafting a resolution to bring to the board for consideration that would encourage administration to embark on a holistic master plan that looks at both programs and physical facilities to not only be effective in reaching education segments of the community, but also prioritizing programs, and utilizing efficient use of human and physical resources. The plan would align all campuses Long Range Development Plans. It was noted that when working on the UH-West O'ahu master plan, the System would be more efficient and cost effective if there was a holistic plan determining what each campus should and could provide to better utilize programming that drives facilities and becoming one system rather than 10 separate campuses.

V. ADJOURNMENT

There being no further business, upon motion by Regent Kudo and seconded by Regent Mizuno, and with no objections, the meeting was adjourned at 2:06 p.m.

Respectfully submitted,

/S/

Cynthia Quinn
Executive Administrator and
Secretary of the Board of Regents



Quarterly Financial Report for Fiscal Year Ending June 30, 2015

September 2, 2015

Budget and Finance Sub-committee



General Summary

1. Year-end Report (ending June 30 and including Period 13 transactions)
2. Operating reserve balances
 - Note: Regent Policy 8.203 which sets operating reserves at minimum of 2 months (approximately 16%)
 - Note: Executive Policy 8.210 sets non-general fund reserves at:
 - Minimum 5% in unencumbered cash from all tuition and fee funds
 - Minimum 5% in unencumbered cash from all other special and revolving funds + reserves for bond system projects as required by bond resolutions and/or university policies
 - Reserves = Unencumbered cash at the campus level.
3. FY15 – Effectively no fiscal imbalance: All campus-level aggregate revenues exceeded unencumbered expenditures (exception UH-Hilo for \$300K).



Overview and Analysis

TFSF Ending Balances

Comparing FY15 TFSF Ending Balances

vs.

Forecasted FY15 TFSF Ending Balances

(as presented in BOR-approved FY16 budgets)

<u>Campus</u>	<u>Actual</u>	<u>Estimated</u>	<u>Difference</u>
Mānoa	7,350,161	7,372,495	(22,334)
Hilo	13,138,323	14,135,000	(996,677)
West-O'ahu	4,596,853	1,726,472	2,870,381
Community Colleges	6,460,264	3,189,388	3,270,876
Systemwide Support	4,020,108	3,768,190	251,918



Overview and Analysis

Revenues

All Sources of Funds

1. For Tuition and Fees Special Fund, all campuses ended with higher revenues than prior year (FY14)
2. FY15 aggregate revenues for individual campuses mostly positive.

Campus	FY15 Projected Revenues	FY15 Actual Revenues
UH-Manoa	\$ 600,388,015	\$ 584,931,840
UH-Hilo	81,878,318	81,911,841
UH-West Oahu	28,271,921	28,665,779
Community Colleges	207,995,229	209,300,775
Systemwide Programs	53,101,171	55,883,566
SYSTEM TOTAL	\$ 971,634,654	\$ 960,693,801

But, revenues for the UH-System were less than projected, by approximately \$11 million in Other Special Fund revenues.



Overview and Analysis

Revenues (cont.)

3. Similarly, Research and Training Revolving Fund (RTRF) met or exceeded FY15 projections and was higher in all campuses than prior year.
4. Other Special Funds and Revolving Funds did not meet their projections – respectively meeting 92% and 91% of projections
5. As system, UH met 98% of its FY15 revenue projections across all funds, but still exceeded FY14 revenues.



Overview and Analysis

Expenditures

All Sources of Funds

1. Even though FY15 actual revenues were \$11 million less than projected across the entire UH System, FY15 expenditures were managed to below projections by \$79.7 million.

Campus	FY15 Projected Expenditures	FY15 Actual Expenditures
UH-Manoa	\$ 633,362,359	\$ 577,713,784
UH-Hilo	89,664,619	82,253,247
UH-West Oahu	26,870,431	23,492,980
Community Colleges	216,843,235	204,664,861
Systemwide Programs	57,943,602	56,788,575
SYSTEM TOTAL	\$ 1,024,684,246	\$ 944,913,448

2. For the System, actual expenditures were 92% of projection for the aggregate of all funds.



Overview and Analysis

Expenditures (cont.)

3. Mānoa reduced overall expenditures from TFSF by \$19 million from FY14 levels, and spent at 93% of their initial projections.
 - Across all Means of Financing, Mānoa spent roughly \$34 million less than FY14 levels, at 91% of their initial projections.
4. Hilo spent an additional \$2.2 million from TFSF over FY14 levels.
5. Combined General Fund and TFSF expenditures for West O‘ahu totaled \$22.5 million, which is \$3.3 million more than their FY14 expenditure level of \$19.2 million.
 - Attributable to increased General Fund appropriations (expenditures) increased by \$4.8 million, while TFSF expenditures were reduced by \$1.4 million.
6. FY15 expenditures (\$944.9 M) less than FY14 expenditures (\$971.6 M).



Revenues vs. Expenditures

FY15 vs. FY14 (Actuals)
All Sources of Funds

	REVENUES			EXPENDITURES		
	FY15	FY14	Diff %	FY15	FY14	Diff
UH-Manoa	\$ 584,931,840	\$ 557,655,460	4.89%	\$ 577,713,784	\$ 611,711,862	-5.56%
UH-Hilo	81,911,841	80,728,844	1.47%	82,253,247	79,557,251	3.39%
UH-West Oahu	28,665,779	26,935,114	6.43%	23,492,980	20,229,122	16.13%
Community Colleges	209,300,775	204,712,978	2.24%	204,664,861	205,484,427	-0.40%
System Programs	55,883,566	59,157,282	-5.53%	56,788,575	54,596,611	4.01%
TOTAL	\$ 960,693,801	\$ 929,189,677	3.39%	\$ 944,913,448	\$ 971,579,275	-2.74%

[1] Decline in revenues at System Programs attributable to \$3.6 million timing affect in distribution of RTRF revenues in FY14 vs. FY15.

[2] Increase expenditures in UH-West Oahu, for FY15 attributable to increased costs for Personnel Expenditures and Other Current Expenditures consistent with planned campus and curriculum expansion.



Overview and Analysis

Summary Conclusion and Forward

1. Campuses performed generally in alignment with their projections.
2. Overall financial performance of the system improving.
 - Pro-active management of expenditures relative to revenue development preserved overall reserve levels.
 - Need to continue focus on building TFSF reserve levels.
3. Path forward via approved FY16 operating budget is anticipated to build reserves – but, will be a multi-year plan for Manoa.
4. Starting with FY16 Q1, we can add, build, or revise the format of this report for greater transparency and ease of use.