

University of Hawai'i Funding Overview

The University of Hawai'i is a complex organization with ten separate campuses supporting the higher education mission of the State of Hawai'i. The funding available to the University comes from an array of sources, each with its own laws, regulations, processes, policies, and procedures which govern the budget preparation and budget execution processes. Due to the significant differences in the administration and control of these funds, separate offices are responsible for each group of funds. Reporting on each group of funds is normally separately required due to these administrative differences. The major sources of funds available to the University include:

Appropriated Operating Funds
(General, Federal, Special, Revolving)

University Budget Office
(Director Glenn Okimoto)

Capital Improvements Program (CIP)
Bond Funds (Appropriated)

Office of Capital Improvements
(Assoc. Vice President Brian Minaai)

Federal & Non-Federal Extramural Funds
(Research and Non-Research)

Office of Research Services
(Director Yaa-Yin Fong)

Other Non-Appropriated Funds
(Endowment, Loan, Bond, Agency)

Financial Management Office
(Director Russell Miyake)

Appropriated Operating Funds (General, Special, Revolving, and Federal)

- The University prepares a biennial operating budget request for General, Special, Revolving, and certain Federal funds for consideration by the Legislature when it convenes in regular session in every odd-numbered year. A supplemental budget request to amend any current appropriation in a fiscal biennium may also be submitted to the Legislature when it convenes in regular session in even-numbered years.

Upon formal approval by the Board of Regents, the University submits its biennial or supplemental budget request to the Department of Budget and Finance for review and incorporation into the Executive Budget Request for the State. Beginning in 1998 however, the University has been required by law (Act 115, SLH 1998) to simultaneously transmit its budget requests directly to the Legislature for informational purposes.

General Funds: funds derived from the general revenues of the State and appropriated by the Legislature for the operation of the University System.

Special Funds: funds generated from the provision of goods and/or services and used for specific purposes as authorized by law.

Revolving Funds: funds generated from the provision of goods and/or services and used to cover the cost of providing those goods or services.

Federal Funds: funds received from the federal government for the financing of a federally sponsored program.

- Appropriations for operating funds are specifically designated in the General or Supplemental Appropriations Act by fund type, fiscal year (July 1 to June 30), and the following major organizational units:

UH-Manoa

Aquaria (included in UH-Mānoa summary)

UH-Hilo

Small Business Development Center (included in UH-Hilo summary)

UH-West Oahu

UH-Community Colleges

UH-Systemwide Support

In addition, the Legislature may also include special provisions (provisos) in the General or Supplemental Appropriations Act that impose certain requirements upon the University as a condition for expending any particular operating appropriation. (Attachment A – Appropriations Act)

- The University Budget Office (Director Glenn Okimoto) coordinates and administers all appropriated operating funds on a systemwide basis. Operational control of operating funds is delegated to the major units identified above.

- General fund appropriations represent Legislative authorization to expend a specified amount of the general revenues of the State for the operation of the University within a specific period of time (fiscal year) in accordance with Article VII, Section 9. of the State Constitution. State law allows the Governor to withhold or restrict Legislative appropriations under certain conditions. Since General fund appropriations are time specific, any remaining amounts that are not expended or encumbered at the end of a fiscal year will lapse and be returned to the State General fund.
- Appropriations for Special, Revolving, and Federal funds represent specific expenditure authorizations or ceilings approved by the Legislature on a fiscal year basis. These appropriations are based on anticipated revenues generated by University programs and projected expenditures for these funds and are included in the University's budget request to the Governor and the Legislature.

Pursuant to §304A-2004, Hawaii Revised Statutes, the President is authorized to approve expenditures in excess of the amounts appropriated for Special and Revolving funds when actual revenues for a particular fund exceeds the appropriated ceiling. Any unexpended revenues remaining in these funds at the end of a fiscal year are retained by the University and subject to Legislative appropriations for the ensuing fiscal year.

Federal funds are similar to General funds with respect to lapsing. These funds generally lapse at the end of the federally authorized period.

- The University makes payments for obligations incurred by all appropriated operating funds through its own checking account called the University of Hawaii General Account (UHGA). The Department of Accounting and General Services (DAGS) transfers cash to the University on a weekly basis for General Fund appropriation purposes. Similarly, Federal funds are transferred to the University through a weekly Letter of Credit process. Special and Revolving fund revenues are held in University depositories and controlled directly by the University.
- All appropriated operating funds are subject to a quarterly allotment process in accordance with Chapter 37, Hawaii Revised Statutes. The University is required to submit a quarterly expenditure plan (SF A-19) for all appropriated funds to the Department of Budget and Finance (DB&F) for approval at the beginning of each fiscal year. No expenditures may be incurred without an approved expenditure plan. (Attachment B - A-19 Document)
- Quarterly expenditure plans are revised at the end of each quarter to reflect actual expenditures and revised estimates for the remaining quarters. In the event that expenditures required in a particular quarter exceeds the estimate in the currently approved quarterly expenditure plan, a revised plan must be prepared and submitted to DB&F for approval. The University's Financial Management Information System (FMIS) includes rejection edits to prevent expenditures from exceeding approved quarterly allotments.

- In 1995, the Legislature authorized the establishment of the Tuition and Fees Special Fund (TFSF) and permitted the University to retain and expend revenues from tuition and fees in order to "...maintain and improve the University's programs and operations" (Act 161, SLH 1995). Prior to this action, tuition revenues were retained by the State and the University received General Fund appropriations for all of its operating expenses. In allowing the University to retain tuition revenues however, the Legislature also reduced its general fund appropriations to the University by more than a corresponding amount. Therefore, the TFSF is currently used to cover a significant portion of the University's operating costs.

Effective FY 2006, the State authorized the University to establish a non-imposed S 397 TFSF appropriation. Payroll costs for permanent positions are allowed to be charged to this new appropriation and the associated fringe benefit costs are absorbed by the State. This is a major change in the administration of TFSF which positively impacts the University.

- All of the University's Special and Revolving funds are individually established by statute. In general, these statutes identify the type of revenues that the University is authorized to retain and the nature of expenditures that may be incurred for each fund. As a result of the steady decline in General Fund appropriations, there is a growing emphasis on making those programs funded by Special and Revolving funds more self-sufficient and less dependent on General fund support.
- Special and Revolving fund programs are required to maintain adequate cash balances in order to meet reasonable cash reserve and working capital requirements. Good business practices dictate that cash reserves be maintained to cover anticipated repair and maintenance costs for facilities and equipment, long-term liabilities, and other unanticipated costs as they arise. A certain amount of working capital is also required by each program in response to seasonal variations in revenues and expenditures.

Reporting Format

The reporting format for appropriated operating funds consists of planned expenditures and transfers, and estimated revenues and projected cash balances for Special and Revolving funds as reflected in the Budget Level Summary (BLS) system of reports. These reports are updated quarterly with actual data from the University's FMIS system and revised estimates from program units.

Appropriated Capital Improvements Program (CIP) Funds

Definition of Capital Improvements Program (CIP)

- Expenditures necessary to provide a tangible asset capable of accruing benefits in the future.
- CIP projects normally provide for the construction of new buildings or major renovations of existing buildings.
- CIP projects may also include modifications to existing spaces to accommodate changes in program requirements.
- The main revenue source for University CIP projects comes from State issued general obligation bonds. Debt service on general obligation bonds is funded by the State to the University as pass through funding authorized by budget proviso to meet these obligations.

Summary of CIP Budget Process

- Biennial Budget Process – The CIP budget, like the University’s operating budget, is based upon a 2-year, biennium budget cycle (e.g. Fiscal Biennium 2005-2007). The University prepares a biennial CIP budget request for consideration by the Legislature when it convenes in regular session in every odd-numbered year. A supplemental budget request to amend any current appropriation in a fiscal biennium may also be submitted to the Legislature when it convenes in regular session in even-numbered years.
- The processes, policies and procedures used to administer appropriated CIP funds differs significantly from those of appropriated operating funds. A separate Office of Capital Improvements coordinates and administers these funds for the University.
- Length of CIP Appropriations – Unlike the operating budget, CIP appropriations do not lapse at the end of each fiscal year. Instead, CIP appropriations lapse at the end of the fiscal year following the end of the biennium. As an example, appropriations in FB 2005-2007 lapse on June 30, 2008.
- University Program Consultation – In late Spring/early Summer, CIP budget instructions are issued to the Chancellors, Vice Presidents, and Systemwide Directors. The Chancellors, Vice Presidents, and Systemwide Directors disseminate the CIP budget instructions to their deans and directors, prioritize their respective program requests, and submit their requests to the Office of Capital Improvements for consolidation, integration, and prioritization into a University of Hawai‘i CIP budget request.

- Budget Request Review – CIP requests are reviewed and analyzed to ensure that requested projects are consistent with the goals of individual campuses and comply with Board of Regents’ Policy Section 4-4, which states that “only facilities appropriately designated on the approved [long range development] plan[s] may be constructed on the campuses.”
- Board of Regents Approval – After prioritization and consultation with the Chancellors, Vice Presidents, and Systemwide Directors, the proposed CIP budget is transmitted by the President to the Board of Regents for approval. Upon Board approval, the CIP budget is known as the Board of Regents’ CIP Budget.
- Transmittal of the Board of Regents’ CIP Budget to the Governor and Legislature – The Board of Regents’ CIP Budget is transmitted to the Governor, the Speaker of the House, and the President of the Senate. The Governor considers the Board of Regents’ CIP Budget and selects projects for integration in the Governor’s CIP Budget which is transmitted to the Legislature as part of the Executive Budget Recommendations.
- CIP Budget Categories – The CIP budget normally consists of the following categories:
 - health and safety projects;
 - capital renewal and infrastructure projects;
 - implementation of long range development plans; and,
 - funding authorization.

Implementation of CIP Projects

- CIP budget implementation is initiated by the University through the request for allotment via the State Department of Budget and Finance and approval by the Governor. The Governor may withhold the release of CIP funds for a specific project that has been appropriated by the Legislature. The Legislature may also prematurely lapse prior appropriated projects.
- Pursuant to Board of Regents’ Policy Section 8-1(b) and 8-1(c), the Board must give prior approval of CIP and R&M contracts as it pertains to planning and design consultants and construction projects. Specifically, Section 8-1(b) states:

Construction contracts, including repair and maintenance projects, in excess of and/or totaling more than \$500,000, shall require the Board’s prior approval.

Additionally, Section 8-1(c) states:

All consultant contracts in excess of \$100,000, expenses included, shall require the prior approval of the Board of Regents.

On May 23, 2003, the Executive Administrator and Secretary of the Board of Regents set forth a process to comply with the Board of Regents' Policy Section 8-1. The process states:

1. Beginning on July 1, 2003, the Administration will present an expenditure plan for various CIP/repair and maintenance projects planned for the new fiscal year. The expenditure plan will include but not limited to project number, title, estimated cost and/or appropriations and the estimated bid opening date.
2. Upon bid opening, provided there are sufficient funds, the Administration is authorized to award the contract and give a notice to proceed to the contractor.
3. As the expenditure plan is revised during the fiscal year, the revised expenditure plan will be transmitted to the Board for approval.

The adoption of this process was done to ensure that CIP and R&M projects could be implemented on a timely basis.

- The State issues all CIP payments to vendors through the State of Hawai'i checking account. All CIP general obligation bond proceeds are held by the State of Hawai'i.

Reporting Format

For appropriated CIP funds, an appropriate reporting format is a quarterly view of the status of project allotments, encumbrances, and expenditures, by means of financing. These reports focus on active biennial fiscal years with available CIP appropriations. During the first year of a biennium, two separate biennia may be reflected on the reports as funding from both biennial budgets will still be active. As noted above, all CIP general obligation bond proceeds are held by the State of Hawai'i (no cash retained by the University).

Federal and Non-Federal Extramural Funds (Research and Non-Research)

- Federal and Non-Federal extramural funds include project-based funds from Federal and Private sources which relate to research and non-research functions. These funds are requested and administered directly with the sponsoring Federal agencies or private organizations and are not controlled by the State. A separate Office of Research Services (ORS) (Director Yaa-Yin Fong) coordinates and administers these funds for the University. Accountability for these funds is shared between ORS and the University program that conducts the project.
- The processes, policies and procedures used to administer Federal and Non-Federal extramural funds greatly differs from those of appropriated operating and appropriated CIP funds:
 1. These funds are restricted to meet the specific requirements of the contract or grant. They cannot be used to pay for general program and campus operating costs.
 2. Policies and procedures used to administer these funds are governed by statute, regulation, sponsoring agency policy or the specific terms and conditions of the contract or grant.
 3. These policies restrict the types of costs (i.e., “allowable costs”) that may be charged to projects. In some cases, sponsor approval must be obtained before re-budgeting or spending funds.
 4. These policies also prohibit discrimination against federal funds. A cost (e.g., graduate student tuition waiver) cannot be charged to federal grants or contracts unless appropriated funds (e.g., general funds) are similarly charged.
 5. Funds do not lapse like appropriated funds. They are available for the period specified in the contract or grant, which often does not match the University’s fiscal year. Project periods can be as long as a few months or more than a year and no-cost extensions are common.
 6. Budgets are maintained for the project period because the Federal Government does not require monthly or fiscal year budgeting.
- Note that the indirect cost income generated on these projects can be used to cover general program and operating costs provided that they support research and non-research sponsored programs. These funds are already reflected under the appropriated operating funds as Research and Training Revolving Funds (RTRF).
- The projects operate on a cost reimbursable basis. The University pays for project costs from the UHGA checking account and then submits an invoice or electronic funds transfer request for reimbursement (Cost Reimbursement or Letter of Credit). Since the Federal Government, in essence, requires institutions to provide working capital to advance payments, cash flow and billing issues are critical concerns in this area.

- The availability of electronic funds transfer is at the sole discretion of the sponsor on a grant-by-grant basis. Also, reporting requirements can be extensive, which adds to the complexity of billing (e.g., the final payment is not made until final financial and technical reports are accepted).

Reporting Formats

New Extramural Awards – Fiscal Year to Date

For Federal and Non-Federal extramural funds, an appropriate reporting format is a quarterly snapshot on the level of new awards received during the fiscal year. Due to the project based nature of these funds, the award level could relate to a couple of months or could span over a number of years. This award level is most commonly used in comparing the activity level of extramural funding from one time period to another.

1. In keeping with industry practice, the report of extramural awards submitted to the Board reports contracts executed and grants received during the month or fiscal year.
2. The new award amount includes only new awards or new money received for continuation of projects during the fiscal year. Continuing projects funded in earlier years are not included. Federal awards generally reflect funding for only the current project period since funding for subsequent periods are approved incrementally and are subject to satisfactory progress and availability of funding. Non-Federal awards may reflect funding for current or multiple project periods which may span more than one fiscal year.
3. The award is a commitment to pay or reimburse the University for services rendered and costs incurred.
4. Although a commitment is received, there are timing differences between the Board report and when an account is actually opened in the accounting system, which delays spending and corresponding revenue recognition.

Current Fiscal Year Budget Balance, Expenditures and Encumbrances Report

The other reporting format that can be tracked is the expenditure/encumbrance level for the fiscal year related to Federal and Non-Federal extramural funds. This is a more accurate activity indicator as it relates to the level of personnel, procurement, payment, and other transactions processed during the current fiscal year, which include continuing as well as new award activity.

A quarterly, fiscal year to date report comparing the current budget balance versus actual expenditures and encumbrances will reveal whether or not the University is within budget overall. However, this must be viewed cautiously, considering the wide variation in start and end dates of projects.

1. Expenditure/Encumbrance tracking is significant as a corresponding revenue entry is generated only when costs are recorded in the financial system. The idea behind this accounting convention is that revenue is “earned” only when reimbursable cost is incurred.
2. Expenditures are used in national ranking surveys because they provide the least controversial measure of research activity. The University routinely provides expenditure data to the National Science Foundation for such purposes.

Other Non-Appropriated Funds (Endowment, Loan, Bond, Agency)

- Endowment, Loan, Bond, and Agency funds are other non-appropriated funds retained by the University of Hawaii. The processes, policies and procedures used to administer these funds differs significantly from those of appropriated operating, appropriated CIP, and Federal and Non-Federal extramural funds. These funds are managed and controlled by the central Financial Management Office (Director Russell Miyake) who also administers the cash flow requirements and the central UHGA checking account. Cash for these funds are held by the University and there are no lapsing provisions for these funds, unless they are specifically cited by the State, Federal, or Private institutions or donors.

Endowment Funds

- The University's endowment funds consist of both permanent endowments and funds functioning as endowment (quasi-endowment funds). Permanent endowment funds are funds received from donors or other outside agencies with the stipulation that the principal be maintained inviolate and be invested in perpetuity for the purpose of producing present and future income which may either be expended for the purposes specified by the donor or added to principal.
- Quasi-endowment funds are funds, which the Board of Regents, rather than a donor or other outside agency, has allocated for long-term investment purposes. The Board of Regents, in accordance with its policies, is not required to maintain the quasi-endowment principal in perpetuity. Quasi-endowment funds are further categorized as restricted and unrestricted. Restricted quasi-endowment funds represent donor-restricted gifts, without the requirement to maintain the principal in perpetuity. Unrestricted quasi-endowment funds represent unrestricted funds designated by the Board of Regents for long-term investment purposes.
- Programs supported by the University's permanent and quasi-endowment funds include scholarships, fellowships, professorships, research efforts and other important programs and activities. The University uses its endowment to support operations by generating a predictable stream of annual support for current needs, while preserving the purchasing power of the endowment funds for future periods.
- The University's portfolio is comprised of the following:
 1. Permanent endowment accounts -- some notable accounts are the Harriet Andrew Cousens, Charles Reid, and Morrill Act.
 2. Restricted quasi-endowment accounts -- the most significant is the E.E. Black account that supports the Medical School.
 3. Unrestricted quasi-endowment accounts, with more than half attributable to the Honolulu Stadium stock account that supports athletic and Regents and Presidents (RAPS) scholarships.
 4. Unrestricted quasi-endowment accounts for scholarship reserve and the Associated Students of the University of Hawaii Manoa (ASUH).

- The endowment spending rate policy provides for an annual distribution, not exceeding 5 percent of the five-year moving average of the endowment portfolio's fair value.

Loan Funds

- The Loan Fund Group is comprised of funds obtained by the University from Federal, State, and private sources. These funds are used for loans to students. Funds for short-term loans (which are repayable in one semester) are generally received from private organizations and individuals. Long-term loan funds are obtained from Federal and State sources. The University currently has the following Loan funds:

Federal Perkins

Nursing and Health Professions (NSL and HPSL)

State Higher Education (SHEL)

Hawaii Educator (HELP)

Housing Assistance

Federal and State Loans

Bond Funds

- Bond Funds account for the proceeds of general obligation bonds issued by the State and revenue bonds issued by the University, which are earmarked for specific uses. The classification of these funds are Renewal and Replacement, Retirement of Indebtedness, Unexpended Plant, and Invested in Plant.
 1. Renewal and Replacement are funds to maintain plant and property to ensure its continued use in future periods (bonds issued by the University).
 2. Retirement of Indebtedness are fund requirements to retire the outstanding debt (principal and interest) on bonds issued by the University.
 3. Unexpended Plant are the remaining funds that are earmarked for an existing project that has not been completed. As funds are expended and projects completed, the funds are classified as Invested in Plant (University's plant, property and equipment)

Note: The Unexpended Plant and Invested in Plant funds are not reflected in the attached Bond fund report as this would duplicate funding reported under the CIP reports and the valuation of plant assets may also be misleading.

Agency Funds

- Agency Funds are used to account for monies held by a governmental unit in an agent capacity of individuals, private organizations and other governmental units or programs. An example is the proceeds held for the Hawaii Bowl.

Reporting Format

For the Endowment and Loan funds, an appropriate reporting format would compare available funding with expenditures and encumbrances and awards. This would exclude the market value of the Endowment fund principal.

For Bond and Agency funds, an appropriate reporting format would be a view of the current assets and liabilities of the funds.

Consolidated Reporting

In attempting to prepare a comprehensive view of funding for the Board of Regents, each general category of funds needs to be viewed in the context of the applicable administrative policies and procedures that govern the use of these funds. In view of this situation, a single reporting format would be misleading and would reflect an erroneous view of the total funding situation. Therefore, each group of funds is presented in the format that best reflects the status of funding. The common links that could be used to link the reports are “Available Resources – Appropriations/Revenue”, “Expenditure/Encumbrance Level”, and “Available Balance”. However, this consolidated view of funding must carefully consider the restrictions, limitations, appropriate use, required reserves, etc. which guide the use of these groups of funds.

Generally, only the appropriated operating funds of the University, mainly General funds and Tuition and Fee Special Funds, can be used to cover the general program and campus operating costs. Capital Improvements Program (CIP); Federal and Non-Federal extramural funds; Endowment, Loan, Bond, and Agency funds are restricted from use for these purposes. The use of other appropriated funds (Special and Revolving) to cover general program and campus operating costs are limited:

- Although Special and Revolving fund cash balances may be used to cover prorated general program and campus operational costs, it must provide primary benefit for the intended purpose of the fund.
- Special and Revolving fund cash balances must also be viewed with consideration for reasonable cash reserves and working capital requirements. Cash reserves are required to ensure the long-term financial stability of University programs by allowing the program to weather periods of low enrollment/revenue and cover unanticipated costs. The cash reserves are also required to cover equipment repairs and replacement costs and other long-term program maintenance costs to ensure the quality of the educational, training, and related services. The working capital requirements are required to cover operating costs at the beginning of each fiscal year prior to the actual collection of revenue.
- It should be noted that the use of cash balances is a one-shot occurrence as most cash balances have accumulated over an extended period of time as the fee structure of self-support programs are purposely kept as low as possible to further open access and maximize benefits to the students and clientele being served.
- Federal overhead funds, expended under the Research and Training Revolving Fund, are limited in use to cover expenditures that support and/or promote research and non-research sponsored programs.