Fiscal Year 2016-2017
Operating Budget

Introduction

In accordance with University of Hawai'i (UH) Board of Regents Policy 8.204, the UH Administration hereby submits its projected fiscal year 2016-17 (FY17) operating budget. The FY17 Budget reflects a forecast of anticipated major revenue components of the University organized by campus, including tuition & fees, legislative general fund appropriation, and other special or revolving funds. The budget is also organized to forecast major operational expenditures of salaries, utilities, institutional aid, and other operating expenditures.

The FY17 Budget has been constructed by campus management in adherence to guidelines and parameters directed by the Chief Financial Officer. The Board of Regents deliberated an earlier version of this FY17 operating budget in May 2016. This version of the FY17 Budget includes updated revenue forecasts and refined assumptions on operating expenditures.

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OVERVIEW

The FY17 Budget operating budget is forecasted to include $1,064,672,963 in revenues against $1,049,834,537 in expenditures aggregated across the UH system of campuses. Of the two largest revenue components, increased state general fund appropriation will significantly contribute to overall revenue growth, but revenues from tuition & fees are not forecasted to significantly grow in FY17 even with scheduled tuition rate increases at all campuses. Tuition rates at Mānoa and Community Colleges are increasing by 5% in FY17, and by 4% at the Hilo, West Oʻahu, and Maui campuses. Enrollment across the system is projected to decline by 0.43%, which diminishes most of the effect of the rate increase, with the net result being a 1.0% increase in tuition & fees revenue in FY17.

FY17 operating expenditures are forecasted to increase over the prior fiscal year, but at a slower pace than compared to revenues – and, only in the aggregate of all UH campuses. Expenditure components representing the largest areas of increase are payroll and utilities. Scheduled collective bargaining increases for all bargaining units with UH and electrical utilities prices are forecasted to begin to slowly climbing again in 2018. Managing expenditure levels with only modest potential increased revenue in FY17, will be important to maintain reserve ending balances. The projected budget, could produce year-end balances (for all funds) of $178.1 million which is slightly larger than the amount for a two-month operating reserve required of Regent Policy 8.203.

Budget Highlights by Campus

Mānoa

- Additional $2,770,775 from performance based funding
- Additional $2,700,000 in General Funds from UH System as distribution from athletics funding.
- FY17 fiscal shortfalls in Other Special Funds due to Cancer Center, Athletics, and one-time investments from Campus Services, Office of Student Affairs, and Parking Enterprise Special Funds ($8.47 million)
- Campus enrollment forecasted to decline approximately 3.5%.

Hilo

- Tuition and Fees Special Fund expenditure forecasted to be more than revenue due to $3.1 million in one-time investments and carryover expenditures to support Capital Renewal/Deferred Maintenance, Energy Reinvestment, construction contingency for the Daniel K. Inouye College of Pharmacy building, Student Housing, and conversion of contracted security services to in-house employees.
- Campus enrollment forecasted to decline approximately 1.5%.

West Oʻahu

- Tuition and Fees Special Fund expenditure modestly exceeds forecasted revenue by approximately $221,000 due to increased staffing requirements.
- TFSF expenditures from reserves is modest and reserve level projected to remain above 10%.
- Campus enrollment forecasted to increase approximately 4%.

Community Colleges

- Planned and anticipated one-time capital investment for Pālamanui and Culinary Institute of the Pacific from TFSF reserves.
- Enrollment for total Community College system forecasted to remain static.

Systemwide Administration

- Systemwide Administration is distributing $6.36 million in general funds as performance-based funding to campuses.
- Systemwide Administration is distributing $2,700,000 in general funds for athletics program to UH-Mānoa and $300,000 to UH-Hilo.
- One-time expenditure planned from Risk Management Special Fund (Other Special Fund) for legal fees.

Strategic Directions

The four Strategic Directions[1] for 2015-2021 are incorporated throughout the budget through ongoing programs, one-time investments using fund reserves, and performance funding:

Hawaiʻi Graduation Initiative (HGI)

The goal of HGI is to increase the educational capital of the state by increasing the participation and completion of students, particularly Native Hawaiians, low-income students, and those from underserved regions and populations and preparing them for success in the workforce and their communities.

Hawaiʻi Innovation Initiative (HI2)

The goal of the Hawaiʻi Innovation Initiative is to create more high-quality jobs and diversity Hawaiʻi's economy. The University is moving forward on innovation initiatives by leading the development of a $1 billion innovation, research, education, and training enterprise that is intended to address challenges and opportunities that will face Hawaiʻi and the world.

21st Century Facilities (21CF)

The goal of 21CF is to eliminate the University's deferred maintenance backlog and modernize facilities and campus environments to be safe, sustainable, and supportive of modern practices in teaching, learning, and research. Contemporary and modern facilities are important competitive factors for learning, research, recruitment, and enrollment.

High Performance Mission-Driven System (HPMS)

High Performance Mission-Driven System (HPMS) supports the institutional mission through cost-effective, transparent and accountable practices that ensure the University is a well-managed business enterprise into the future. Financial viability and sustainability are critical towards UH's ability to provide an accessible education experience that supports the institutional mission.

[1] http://blog.hawaii.edu/strategicdirections/files/2015/01/StrategicDirectionsFINAL-013015.pdf

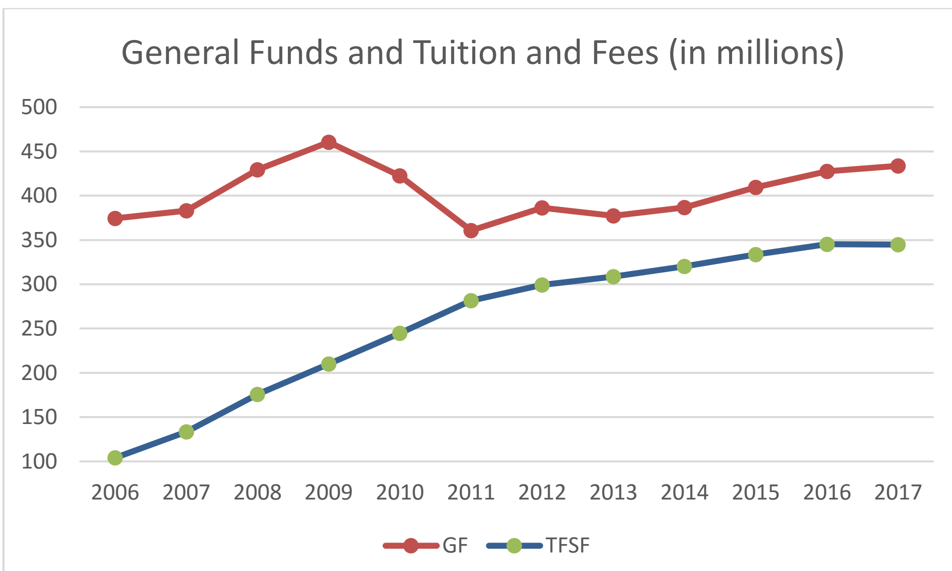
REVENUES

Overall, revenues are increasing by 5.2% to $1.064 billion. This is largely attributable to an increase in general funds ($30.3 million), which is itself largely attributable to increases from collective bargaining ($23.4 million). An additional $5.3 million was added in the budget and $1.8 million in other appropriation bills. However, these additional funds are earmarked for specific purposes as defined by the Legislature, and therefore do not shore up the overall fiscal health of the University.

REVENUES	FY17	FY16	$$ Change	% Change
General Fund	470,162,760	439,864,740	30,298,020	6.9%
Tuition & Fees	348,738,125	345,239,110	3,499,015	1.0%
RTRF	47,856,610	48,909,739	(1,053,129)	-2.2%
Other Special Funds*	151,629,090	171,593,872	17,872,274	10.4%
Other Revolving Funds	37,837,056			
Appropriated Federal Funds	8,449,322	6,637,845	1,811,477	27.3%
Total Revenues	**1,064,672,963**	**1,012,245,306**	**52,427,657**	**5.2%**

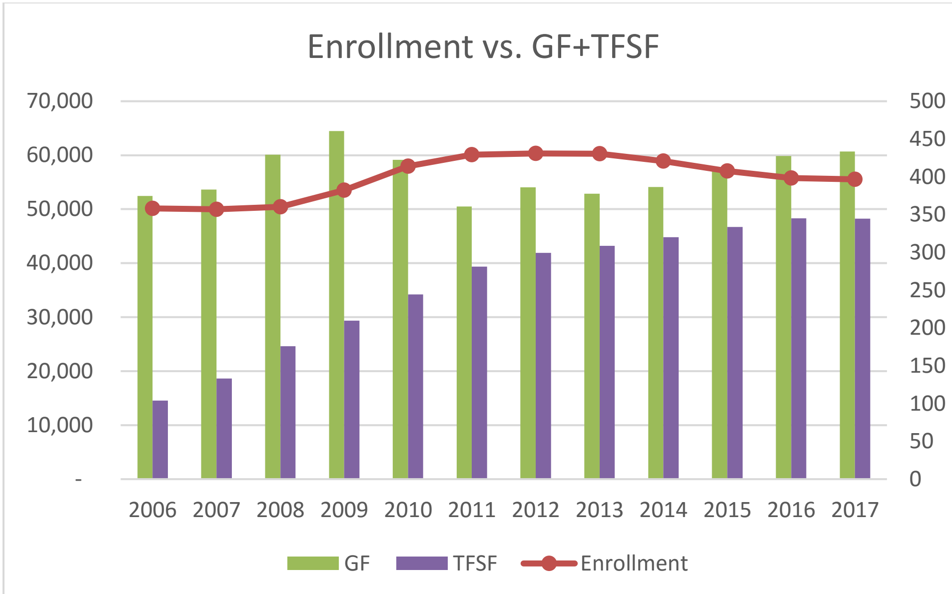
*Note that "Other Special Funds" and "Other Revolving Funds" were combined in the FY16 budget.

The following table shows historic trends for state appropriated general funds and revenues derived from tuition and fees:



In recent years, general fund appropriations have been trending upward, primarily due to collective bargaining. However, they are still short of pre-recession levels and their peak in 2009. TFSF has steadily increased, but that trend is plateauing and is anticipated to begin decreasing over the near term along with enrollment. While enrollment has been declining since 2012, tuition rate increases have more than made up the difference in the past.

During the last economic cycle, decreasing public fund support increased the necessity for the University to recover that lost funding through tuition revenue. The following charts graphically show the counter-balance between general fund appropriations and tuition revenue, as well as the trend in enrollment over the same period of time:



EXPENDITURES

Expenditures are also increasing, although not at the same rate as revenues. The largest dollar increase is in regular employee payroll. While there are some decreases in student help and other personnel payroll, overall personnel costs still shows a $24.6 million increase, which is primarily due to collective bargaining and mostly funded by the Legislature through general funds. The largest percentage increase is attributable to Utilities costs (7.3%), although work is underway to mitigate this.

EXPENDITURES	FY17	FY16	$$ Change	% Change
Regular Employee Payroll	599,388,034	574,777,406	24,610,628	4.3%
Lecturer Payroll	39,832,870	36,303,598	3,529,272	9.7%
Student Help Payroll	20,196,471	20,551,604	(355,133)	-1.7%
Other Personnel	11,049,814	21,904,552	(10,854,738)	-49.6%
Subtotal Personnel	*670,467,189*	653,537,160	16,930,029	2.6%
Utilities	66,594,024	62,062,056	4,531,968	7.3%
Scholarships, Tuition, Stipends	62,590,536	60,627,807	1,962,729	3.2%
Other Operating Expenses	250,182,788	230,204,887	19,977,901	8.7%
Subtotal Other	*379,367,348*	352,894,750	26,472,598	7.5%
Total Expenditures	**1,049,834,537**	**1,006,431,910**	**43,402,627**	**4.3%**

NET OPERATING INCOME

After transfers are accounted for, there is a net operating loss of $11,548,933 across the entire UH system with all funds aggregated. In most instances, these operating losses have been planned and accounted for by building cash balances over prior fiscal years. The notable exceptions to this are the Cancer Center and Athletics Special Funds.

For Other Special Funds, this can be attributed primarily to the Office of Student Activities, Campus Center, and Cancer Center Special Funds, which are operating at loss of $1.1 million, $1.1 million and $7.1 million, respectively. However, only the Cancer Center Fund deficit is structural. (*see page 17 for further discussion)*

For the Tuition and Fees Special Fund (TFSF), there is net operating loss of $2,321,900, across all campuses. The negative amounts for Hilo and the Community Colleges is attributable to one-time costs of $3,132,638 and $4,500,000, respectively. It should be noted that both of these entities have significant cash balances that can accommodate these one-time costs.

The Research and Training Revolving Fund is also operating at a net loss for FY17, to honor prior commitments and facility-related investments. However, despite a loss of $2,178,703 for FY17, their cash balance at the end of FY17 is $17,282,952, which far exceeds their reserve target set by Board policy.

Net Operating (All Funds)	(11,548,933)
Beginning Cash Balance	189,712,289
Ending Cash Balance	178,163,356

RESERVE LEVELS

In aggregate, the University of Hawaiʻi system has very healthy reserves. The cash balance in all funds at the end of FY17 is projected to total $178.2 million. This amount is greater than the guidelines in RP 8.203, which seeks a two-month (or 16%) reserve, or $169.9 million for FY17.

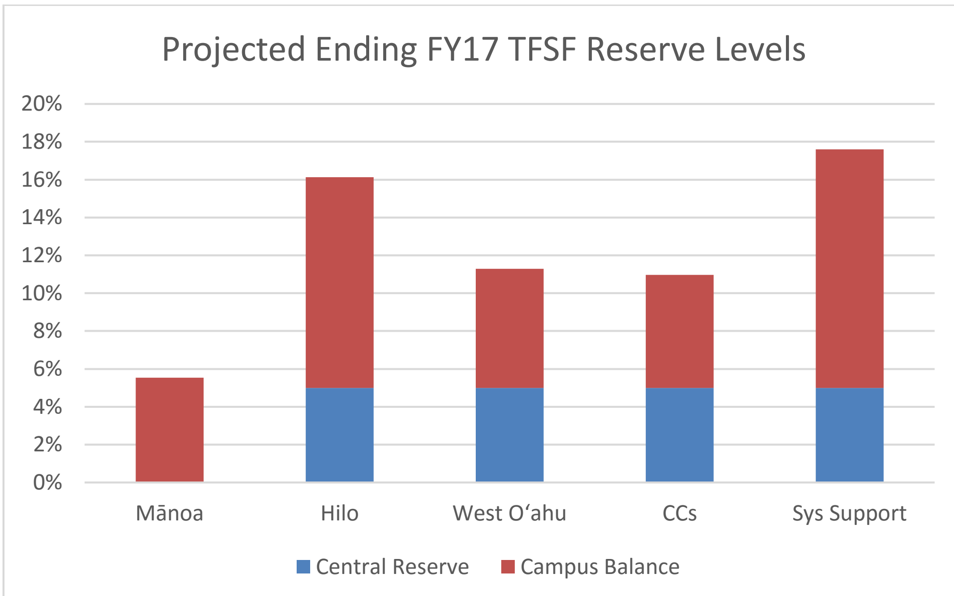
The Tuition and Fees Special Fund (TFSF) is projected to have an ending balance of $53.5 million. This amount is above the minimum requirement of $40.7 million. However, the distribution of these reserve amounts is not equal. The following table shows TFSF balances at the end of FY17:

Campus	FY17 ending	Held at System
Mānoa	25,398,651	-
Hilo	8,489,317	3,376,423
West Oʻahu	2,018,976	1,460,473
CCs	12,243,916	10,015,609
System Support	5,380,544	2,017,148

As part of implementing of Act 236, Session Laws of Hawaiʻi 2015, Systemwide Support (UOH900) will centrally hold the minimum 5% reserve amounts for each campus. Campuses may have access to their funds, but only with approval by the Chief Financial Officer. An exception has been made for Mānoa, as they do not have sufficient balances to meet the 5% requirement at this time. The Chief Financial Officer is working with Mānoa to increase those ending balances so that Mānoa may meet the 5% requirement.

This document is intended to satisfy the inaugural intent of Act 236 through the established budget process. TFSF balances have been considered as part of overall programs and operations. Each campus is expected to manage their TFSF balance in accordance with Regent Policies and Executive Policies for reserve levels. FY17 budgets contemplate utilizing starting reserve balances.

The following chart shows the projected TFSF reserve levels at the end of FY17, as proposed by the expenditure plan in this budget based on a percentage of expenditures. The Reserve portions will continue to be held at Systemwide Support.



Although its fund balance is healthy, West Oʻahu will still be monitored throughout FY17. Currently, Mānoa's balance is projected to meet the 5% reserve requirement at the end of FY17. Their progress will also be monitored throughout FY17. The reserve levels in the other 3 major areas are adequate.

Performance Funding

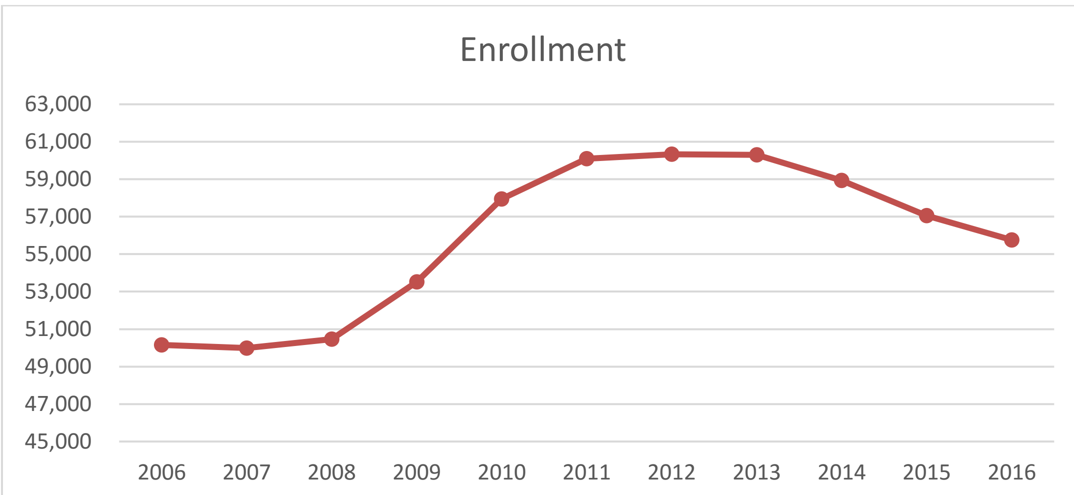
FY17 marks the first year that campuses will be awarded funding based on their performance for the prior academic year. As the official results will not be known until October 2016, this budget provides allocations of performance funding to campuses at 75% of the total level available, which allows campuses the opportunity to include plans on how they would utilize performance funding. Full allocations will be given to campuses based on October data no later than January 2017, but should mostly reflect what is presented in this document.

The measures were based off of performance metrics for the four Strategic Directions, and their FY17 budgets reflect investments by the campuses into those areas. Some of these areas include:

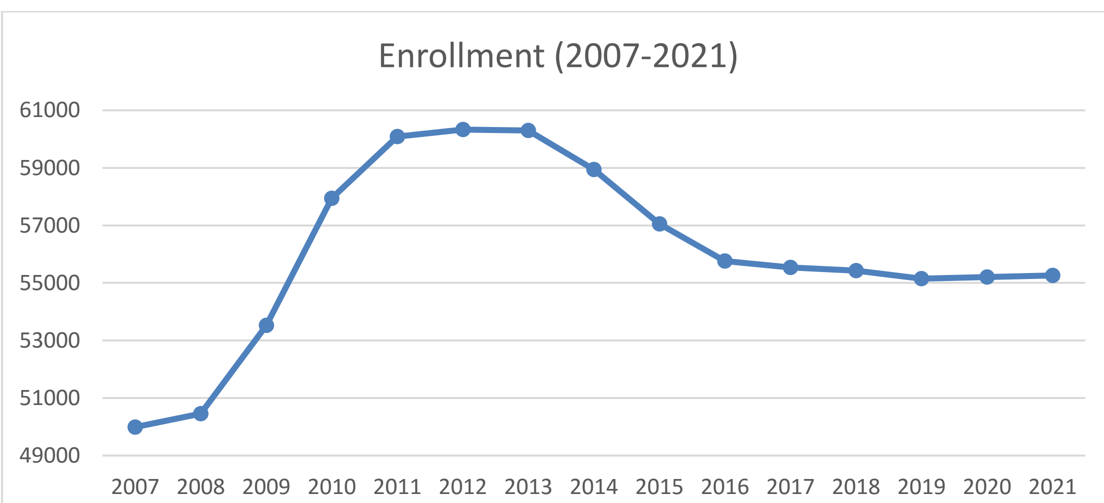
- Improving access to core and high-demand courses at Mānoa and Hilo;
- Increasing student retention rates by, among other things, offering Honors Programs at Mānoa and focusing on early alerts at West Oʻahu;
- Enhancing transfers between the Community Colleges and the 4-year campuses;
- Recruiting additional students – adults, transfers, Native Hawaiians, mainalnd and international population groups.

ENROLLMENT

Enrollment is still declining from its peak in 2012. In aggregate, the University is estimating a decline of approximately 0.43%. Declines in enrollment are mostly attributable to the health of the state's economy as well as the increase in graduation rates. This enrollment experience is consistent with the nationwide trend. In its State Higher Education Finance (SHEF) report for FY2015, the State Higher Education Executive Officers Association (SHEEO) notes that enrollment is down 2.0% nationally since 2010.[2] For that same period, UH enrollment is down 1.1%. This downward trend is also noted by the National Center for Education Statistics, who observed a 3% decline in enrollment at public institutions between 2010 and 2014.[3]



The near-term outlook for enrollment does not look positive. Current projections show a very slight decline for 2018 (-0.2%) and 2019 (-0.5%) before small upticks in 2020 and 2021 (0.1% each year).



[2] http://sheeo.org/sites/default/files/project-files/SHEEO_FY15_Report_051816.pdf
[3] http://nces.ed.gov/programs/coe/indicator_cha.asp

Any tuition increase for the next several years is earmarked for revenue bonds for deferred maintenance and not for operating expenditures. Therefore, TFSF revenue for operations will be trending slightly negative for the next few years before steadying.

BUDGET RISKS

Enrollment risk

There is always uncertainty in enrollment projections. The current downward trend does appear to be slowing and even absent intervention is projected to level off in a couple of years. This trend is consistent with enrollment at higher education institutions across the country. Work is underway now across the system on enrollment management to attract new students as well as to increase student retention.

Future concerns with Mānoa and West Oʻahu campuses

Although Mānoa's TFSF income is net positive this fiscal year, their FY17 ending cash balance is very close to the 5% reserve requirement. They also continue to face declining enrollment. Additionally, there are fundamental concerns with sustainable funding for the Athletics program at Mānoa and for the Hawaiʻi Cancer Center.

West Oʻahu has experienced fiscal imbalance with their TFSF funds in recent history. They face a unique challenge as the only campus with increased enrollment in recent years yet expenditures have still outpaced revenue growth. As a growing campus, West Oʻahu will incur increasing expenditures, but that increase needs to be monitored carefully, so as not to outpace available resources and create a structural imbalance.

ECONOMIC OUTLOOK

The local economy has two major influences on the budget for UH. First, general fund revenues track the General Excise Tax, which follows the trend of the state's economy. Additionally, enrollment has an inverse relationship with the state's economy. So when Hawaiʻi's economy is good, that bodes well for General Fund appropriations but also negatively impacts enrollment and therefore TFSF revenue.

In its Quarterly Statistical & Economic Report[4] (QSER) for the 2nd Quarter of 2016, the Department of Business, Economic Development, & Tourism (DBEDT), noted that the state's economy is "expected to continue positive growth for the rest of 2016 and into 2017." The QSER projects real GDP for Hawaiʻi to grow by 2.3 percent in 2016, 2.4 percent in 2017, 2.4 percent in 2018, and 2.2 percent in 2019. The unemployment rate is expected to decrease to 3.1 percent in 2018 and 3.0 percent in 2019.

The table below lists some of these key indicators. Besides the unemployment rate, the figures below represent annual percentage change versus the prior year.

Economic Indicator	2014	2015	2016	2017	2018	2019
Civilian Unemployment Rate	4.4	3.6	3.2	3.2	3.1	3.0
Real GDP Growth	2.7	4.8	4.1	3.9	4.3	4.1
Real Personal Income Growth	4.7	4.6	4.8	5.0	5.0	5.0
Honolulu CPI Growth	1.4	1.0	2.0	2.2	2.3	2.4

[4] http://dbedt.hawaii.gov/economic/qser/outlook-economy/

In Executive Memorandum No. 16-02, dated June 24, 2016, Governor Ige estimates that "the FY 16 general fund balance will be about $890 million based on the COR's projected 6.1% growth rate for FY 16." However, preliminary reports on statewide collections show that the growth rate for FY16 was approximately 8.0%.

CONCLUSION

Enrollment continues to trend downward, although the decline is projected to slow considerably. This needs to be monitored, and campuses are taking steps to attempt to address the decline.

The Mānoa campus is slowly reaching adequacy with its reserves. However, this progress is slow, and there are still concerns in other non-tuition areas. The growth at West Oʻahu needs to be monitored, which will be done through the quarterly financial reports.

Hilo, the Community Colleges, and Systemwide Support all have healthy reserves and we have no fundamental concerns with their budget, even if they show losses for FY17.

Because the near-term trend can be described as "steady", it is imperative that the University system achieve structural balance – other than perhaps UH West Oʻahu,we should not expect to grow ourselves out of this situation in the next few years.

The following paragraphs from the conclusion of SHEEO's report can help to illustrate the challenges facing higher education institutions across the country:

> *"…The new normal no longer expects to see the level of recovery of state support for higher education that occurred repeatedly in the last half of the 20th century….The new normal expects schools and colleges to find ways of increasing productivity and to absorb ever larger budget cuts, while increasing degree production without compromising quality.*
>
> *At the same time, more and more states are adopting daring completion and attainment goals which will only be met by better serving those students that have typically been underserved – first generation, low-income, and minority students – students who are less likely to understand how to navigate the higher education environment and may require additional services and supports to succeed…*
>
> *But avoiding bad judgments can be difficult when facing tough choices. Institutions may cut too many quality corner or compete with each other to raise revenue from 'new' sources (such as out-of-state or international students) rather than make difficult decisions about priorities or the extra effort required to create and effectively implement innovative practices. Policymakers may overestimate how many students can be well educated within existing resources, or make unrealistic assumptions about the potential for technology and new delivery methods to rapidly become a panacea offsetting the long-term negative effects of budget cuts or tuition increases on access to higher education and the quality of our workforce. Or the better-off public may be lulled into thinking that*

the American economy can get by with limited opportunities and 20^{th} century standards for educational attainment, so long as their own families are well educated. The educational and economic edge the United States once enjoyed in comparison to other nations has been eroding. Sound judgment about priorities and extra measures of commitment and creativity are needed in order to regain our educational and economic momentum."

University of Hawai`i at Mānoa

Introduction

The University of Hawai'i at Mānoa is the research campus of the University of Hawai'i, and as such, combines several distinct and overlapping aspects. It is the 'flagship' campus of the system, containing the state's only medical school, law school, school of architecture, as well as distinctive professional schools in education, business, engineering, and social work and doctoral programs in all of the major intellectual disciplines. It is also the 'land-grant university for the state,' which means that it has state-wide responsibility for extensions run through the College of Tropical Agriculture and Human Resources.

In recent years, there has been a strong emphasis on improving the quality of the "Mānoa experience," which includes the physical facilities, from renovated residence halls to the fabulous new Warrior Recreation Center to refurbished classrooms across campus. We have begun new programs in undergraduate research, a Washington, D.C. internship program, expanded Study Abroad into China and India, and begun Student Success Fellowships giving students experience as tutors and advisors. All of these efforts have resulted in our receiving a 10 year accreditation from WASC, the longest possible term—a recognition received by only 1 in 7 universities.

Our graduation rates have risen sharply in recent years, with 6 year rates rising from 48% to 57% since 2009, and 4 year rates rising even more dramatically, from 17.5% to 27.9% in the past 4 years alone. We have also led a number of innovations involving every campus of the system, from Automatic Admission and Reverse Credit Transfer to the new Graduation Pathway System.

Budget Summary

For all funds, UH Mānoa shows revenues of $645,304,435 with expenditures of $629,399,922. After accounting for transfers, Mānoa has a net operating loss of $3,249,920. The loss is largely attributable to continuing operating losses in Other Special Funds. There are also one-time expenditures for Campus Services and the Office of Student Affairs which are also operating at a loss for FY17.

For Tuition and Fees Special Fund (TFSF), UH Mānoa is projecting revenues of $225,844,393 with expenditures of $176,137,827. After transfers, TFSF shows a net operating gain of $5,305,530.

ALL FUNDS

REVENUES	FY17	FY16	$$ Change	% Change
General Fund	232,840,913	219,617,318	13,223,595	6.02%
Tuition & Fees	225,844,393	224,055,873	1,788,520	0.80%
RTRF	30,044,746	29,442,901	601,845	2.04%
Other Special Funds	121,774,055	134,208,738	17,685,112	13.18%
Other Revolving Funds	30,119,795			
Appropriated Federal Funds	4,680,533	2,982,879	1,697,654	56.91%
Total Revenues	**645,304,435**	**610,307,709**	**34,996,726**	**5.73%**

When comparing the projected FY17 budget against the FY16 BOR approved budget, revenues are increasing by 5.73%. The increase is largely attributable to the growth in general fund appropriations and Other Special Funds.

EXPENDITURES	FY17	FY16	$$ Change	% Change
Regular Employee Payroll	357,797,897	351,243,408	6,554,489	1.87%
Lecturer Payroll	10,283,970	6,732,601	3,551,369	52.75%
Student Help Payroll	10,997,146	11,836,326	(839,180)	-7.09%
Other Personnel	6,173,076	16,391,601	(10,218,525)	-62.34%
Subtotal Personnel	*385,252,089*	*386,203,936*	*(951,847)*	*-0.25%*
Utilities	48,123,222	41,415,229	6,707,993	16.20%
Scholarships, Tuition, Stipends	42,493,648	40,622,348	1,871,300	4.61%
Other Operating Expenses	153,530,963	143,035,867	10,495,096	7.34%
Subtotal Other	*244,147,833*	*225,073,445*	*19,074,388*	*8.47%*
Total Expenditures	**629,399,922**	**611,277,381**	**18,122,541**	**2.96%**

Expenditures show a 2.96% increase overall when comparing FY16 to FY17 budgets. While personnel costs are relatively stable, utilities costs and other expenses have increased. The other expenses are one-time costs associated with projects for Campus Services and the Office of Student Affairs. The increase in utilities is covered below.

	FY17	FY16	$$ Change	% Change
Net Operating Income	(3,249,920)	(8,557,037)	5,307,117	-62.02%
Beginning Balance	109,128,441	86,028,238	23,100,203	26.85%
Ending Balance	105,878,521	77,471,201	28,407,320	36.67%
Reserve Requirement	32,472,109	30,704,068	1,768,041	5.76%
Excess	73,406,412	46,767,133	26,639,279	56.96%

Net Operating Income (Revenues less Expenditures and Net Transfers) for FY17 is negative for Mānoa, which is largely attributable to operating deficits in the Cancer Center Special Fund and one-time costs for Housing, Bookstore, Parking, and the Campus Center. Total fund balances for Mānoa are positive.

GENERAL FUNDS

Mānoa uses General Funds to fund permanent personnel expenditures. General Fund revenues show an increase of $13 million, or 6%, as a direct result of increased funding for collective bargaining and other special appropriations for Athletics ($2,700,000), Title IX/VAWA ($237,500), and a special concussion study ($427,500).

The General Funds revenue for FY17 has been augmented with $2.8 M in **performance funding**. This performance funding has been allocated to academic departments to support core sections, and to Office of Student Services for expanded student recruitment activities. These funds will be used as follows:

- Improve student success by providing adequate access to core and high-demand courses at the Shidler College of Business, College of Languages, Linguistics, and Literature; College of Natural Sciences; and the College of Social Services.
- College of Arts and Humanities: Support the offering of gateway, foundation, general education, and critical courses that would otherwise face cancelation or severe limitation in number of sections offered.
- Office of Undergraduate Education: Improve retention to degree by offering a 4-year Honors Program option; improve retention rates by assisting students in the early identification of a major field of study.
- Office of Student Services: Increase student recruitment activities.

TUITION AND FEES SPECIAL FUND

	FY17	FY16	$$ Change	% Change
Revenues	225,844,393	224,055,873	1,788,520	0.80%

Although the tuition rate is increasing by 5% for FY17, enrollment is estimated to decline resulting to a 4% decrease in revenue, with the net result being an increase of 0.8% over the FY16 estimated revenue for FY17 revenue.

EXPENDITURES	FY17	FY16	$$ Change	% Change
Regular Employee Payroll	77,712,665	78,916,015	(1,203,350)	-1.52%
Lecturer Payroll	9,612,181	6,380,858	3,231,323	50.64%
Student Help Payroll	5,121,054	8,264,440	(3,143,386)	-38.04%
Other Personnel	2,003,156	5,105,546	(3,102,390)	-60.77%
Subtotal Personnel	*94,449,056*	*98,666,859*	*(4,217,803)*	*-4.27%*
Utilities	32,323,794	27,497,037	4,826,757	17.55%
Scholarships, Tuition, Stipends	1,143,953	-	1,143,953	
Other Operating Expenses	48,221,025	52,832,595	(4,611,570)	-8.73%
Subtotal Other	*81,688,772*	*80,329,632*	*1,359,140*	*1.69%*
Total Expenditures	**176,137,828**	**178,996,491**	**(2,858,663)**	**-1.60%**

When compared to the FY16 BOR approved budget, the FY17 projections are expected to decline by 1.6%. However, actual FY16 expenditures were $166,276,545. As such, projected FY17 expenditures are expected to be 5.97% higher than what was actually expended in FY16. Increases in personnel can be attributed to increased CB and fringe costs; increases in other operating expenditures can be attributed to projected increases in utilities which are partially offset by decreases in other expenditures.

The variance between FY16's budget and actuals can be attributed to the timing of the budget exercise and the information that was available at that time. Units may have projected to spend up to their allocations but actually did not. Because the BOR budget is taken at a point in time and does not change given changes to allocations, appropriations and other factors, the variance between budget years can be significant.

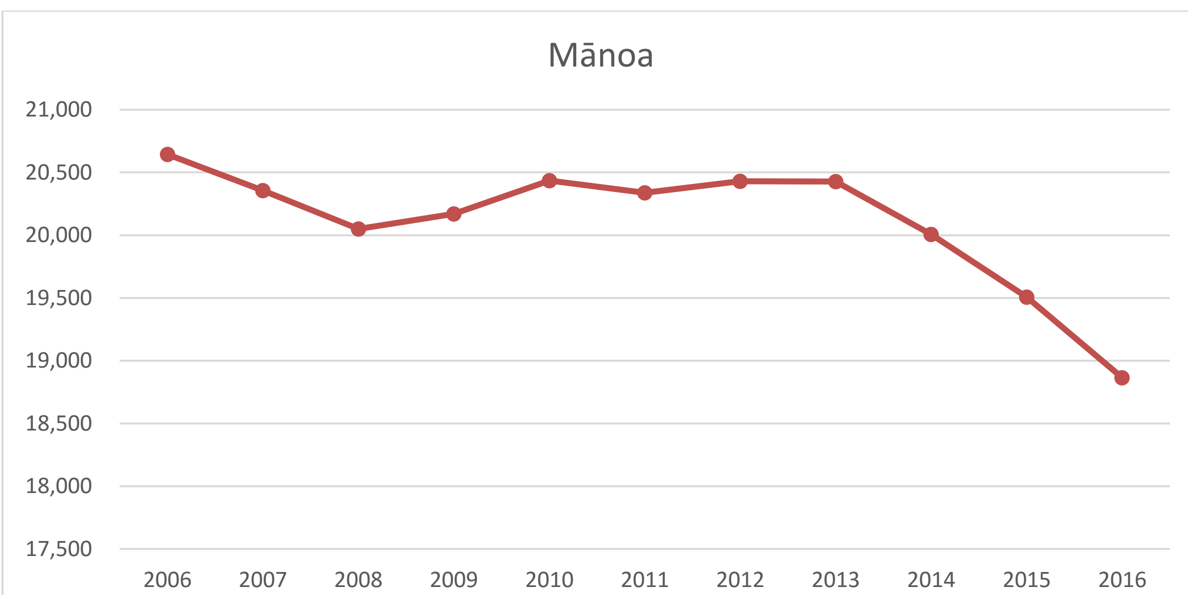
FY16 actual **utilities** expenditures were $593,771 higher than the budgeted amount due in part to paying 13 electricity bills that year instead of the usual 12. Mānoa is budgeting for an increase in utility costs. This projected increase follows 2 years of declining electricity costs. The final allocation to Mānoa Office of Planning and Facilities will be adjusted based on actual expenditures.

	FY17	FY16	$$ Change	% Change
Net Operating Income	5,305,529	2,570,697	2,734,832	106.38%
Beginning Balance	20,093,121	7,372,495		
Ending Balance	25,398,650	9,943,192		
Reserve Requirement	22,937,984	22,055,125	882,859	4.00%
Excess	2,460,666	(12,111,933)	14,572,599	-120.32%

As a result of the decline in expenditures, net operating income for TFSF is positive by approximately $22.9 million, which actually places their ending balance above the 5% reserve requirement outlined in Executive Policy. However, this is a projection forecast at the beginning of the fiscal year. Whether or not Mānoa can meet the reserve target at the end of the fiscal year remains to be determined.

ENROLLMENT

Overall enrollment (continuing students, new freshmen, transfer, returning, second degree and new graduate students) continues to trend downward: 2.3% in 2014, 2.8% in 2015, and 3.3% in 2016. Mānoa is projecting declining enrollment for 2017 at an estimated rate of 3.5%. The enrollment decline is due to a multitude of factors that include but are not limited to improved graduation rates, a static retention and attrition rates, decline in the number of Hawaiʻi high school graduates, decline in Community College enrollments and transfers, a decline in Western Undergraduate Exchange (WUE) students, and low unemployment rates in the state and across the nation.



Strategy

As part of the University of Hawaiʻi at Mānoa Strategic Plan, the Strategic Planning for Admission and Recruitment Committee (SPARC) and a Student Engagement, Retention and Graduation (SERG) Action Plan have been developed to address Mānoa's enrollment challenges. Based on the objectives identified by the committees, Mānoa is implementing the following efforts to mitigate declining enrollment.

SPARC is focusing on five major categories in which to build the plan: enrollment projections; branding, image and marketing; recruitment; affordability; and infrastructure**.** Mānoa is focusing on international recruitment, increasing applications and enrollment from local students, improving communication between prospective students and their parents and improving Mānoa's brand.

In order to increase new international student enrollment, the Office of Admissions has established an office focusing on comprehensive international recruiting, expanded international travel by increasing the number of international high schools visited and fairs attended, and expanded Mānoa's international reach into other countries by adding Canada and Brazil to our recruitment schedule. For FY17, an additional $500K is being invested to extend international recruitment efforts. Mānoa has established partnerships with the Department of Business, Economic Development and Tourism (DBEDT) to include travel with the Study Hawaiʻi Asian trip and has established an office in Beijing, China. We have also established a partnership with Kapiʻolani Community College (KCC) to increase transfer enrollment of international students from KCC.

In order to increase applications and enrollment from students in Hawaiʻi, Mānoa has improved recruitment programming for local students, and made efforts to improve communication and relationships with local counselors. We also established the Mānoa Access Initiative (MAI) program to provide access to underrepresented students in Hawaiʻi.

Mānoa has also acquired a client-relationship management software (CRM) to manage and analyze prospective student interactions and data throughout the prospective student's lifecycle, with the goal of improving communication and building relationships with prospective students and their families.

We are also focused on improving branding, imaging and advertising including investing in new print, digital and broadcast efforts, developing the "Make Mānoa Yours" social media program, and designing a new fresher look for the Mānoa brand in admission publications. A new Mānoa admission website has been launched which is marketing and experiential driven.

OTHER SPECIAL FUNDS

Other Special Funds at Mānoa show a net operating loss of $8.47 million for FY17. This is attributable primarily to four funds: Cancer Center, Campus Services, Office of Student Affairs – Student Life and Development, and Athletics.

Campus Services

Campus Services is projecting to spend more than its revenues in FY17, as part of its plan to address some of its deferred maintenance. Deferred maintenance expenditures are projected to include:

- Waʻahila Faculty Housing Voluntary Reserve ($650,000): Replacement of draperies, appliances, and flooring; painting of housing complex.
- Kauʻiokahaloa Nui (K-Nui) Faculty Housing Voluntary Reserve ($1,500,000): Replacement of draperies, carpet, and flooring; replacement of water heaters; installation of new environmentally friendly lighting in the housing complex.
- Bookstore Voluntary Reserve ($350,000): Replacement of old flooring and rotting fixtures at Mānoa Bookstore; renovation of KCC and LCC Bookstores to increase work flow efficiencies and improve the appearance of the stores.

Although the cost of these projects will exceed the amounts transferred into the accounts during FY17, the accounts will remain positive with adequate reserves for future projects. These reserve funds typically have small, if any, expenditures annually.

The Parking Revenue Undertakings account is operating in deficit due to rising costs for service contracts, utility costs, and traffic control costs, as well as inflationary increases for routine operating costs. Parking operations are not sustainable for the long term since over $16 million of necessary repair and maintenance projects have been identified, of which $7.9 million require immediate attention to prevent health and safety issues. The Parking Voluntary Reserve Fund is projected to spend roughly $538,000 to address some of these concerns. Campus Services is in the process of securing a consultant to perform an assessment of its program and expects the consultant to provide recommendations which may include updating/changing its infrastructure to maximize revenues and minimize expenditures. Upon completion of this assessment, Campus Services will produce a proposal for a new rate structure.

Office of Student Affairs – Student Life and Development (OSA-SLD)

The Campus Center Voluntary Reserve Revenue Undertakings account holds reserve funds for Campus Center Complex projects. The Campus Center Complex encompasses the Campus Center, Hemenway Hall, and Warrior Recreation Center buildings. Upcoming projects include paint and spalling repair, fire alarm system replacement, re-roofing, service area renovations, furniture replacement, etc. Projects planned for FY17 total $1.2 million; infrastructure upgrades and other projects for FY18 are projected to total $7.3 million; and an additional $2.3 million is projected to be spent in FY19.

This fund begins FY17 with a cash balance of $13.9 million. The sum total of these projects for the next three years is $10.8 million. As this is the Reserve Fund for the Campus Center Complex, there are typically no expenditures from this fund. With approximately $100,000 transferred into this fund each year, the fund is projected to end FY19 with a $3.4 million cash balance.

Athletics

Athletics continues to show a decline in net income. As projected by the Athletics Director, Athletics needs $5 million per year to achieve fiscal balance. The legislature appropriated an additional $3 million for FY17, of which $2.7 million was allocated by UH System to Mānoa. In accord with the "Deep Dive" presented in 2015, the Athletics Director is looking at a variety of options to increase revenues and decrease expenditures. These include achieving additional efficiencies within the Athletics Department, assessing the impact of increases to student fees, seeking additional legislative and institutional support, and generating additional revenues via activities such as scheduling an additional football game each year. Although Athletics shows a Net Operating Loss of only $154,876 for FY17, that is mostly due to a $2.2 million payment being received in FY17 rather than FY16, as intended.

Cancer Center

While the Cancer Center Special Fund shows a healthy balance, it is projected to over-expend revenues by $7.15 million in FY17 and $7.66 million in FY18 and beyond. Without a change in the funding model (increasing revenues or decreasing expenditures), **the Special Fund reserve balance will be depleted by FY19**. The special fund is used to fund faculty and staff payroll, faculty start-up packages, debt service on the construction of the Cancer Center building, and routine operating expenditures. Revenues have decreased over the years due to declining cigarette tax revenues.

Mānoa has committed to allocating Cancer Center additional RTRF funds amounting to $1 million to $1.5 million in FY17. The amount of increased allocation will be based on their RTRF return amount. Additional expenditure reductions or revenue enhancements will be necessary to address this fiscal imbalance, and the Administration intends to recommend that the Board of Regents approve submittal of our request to the Legislature again.

RESEARCH AND TRAINING REVOLVING FUND

The Research and Training Revolving Fund shows a Net Operating Loss of $1.2 million for FY17. While many Mānoa units are projecting expenditures in amounts less than anticipated revenue for FY17, four units have projected expenditures exceeding anticipated revenue. These expenditures are necessary to fulfill commitments to faculty for start-up packages, cost sharing for extramural awards, equipment repair, faculty travel costs, and pilot projects. The estimated ending balance of the fund is projected to be $17.8 million, which exceeds the 16% reserve requirement outlined in Board Policy, which would be $5.0 million.

University of Hawai'i - Hilo

Introduction

The University of Hawai'i at Hilo offers a rigorous and engaging curriculum at an affordable tuition rate to 3,829 students on a 115 acre main campus. UH Hilo offers 36 undergraduate degrees, 8 graduate degrees, and 4 doctorates, including a doctoral program in Hawaiian and Indigenous Culture and Language Revitalization and a professional doctoral program in Pharmacy Practice.

UH Hilo continues to support initiatives that advance the UH system strategic directions, with primary emphasis on recruitment, retention and graduation, timely capital renewal and reduction of deferred maintenance, and energy sustainability. The Chancellor has challenged the colleges to return to 2010 enrollment levels by 2020 (+ 250 students). Our planning is directed at improving recruitment and retention to attain that level.

ALL FUNDS

REVENUES	FY17	FY16	$$ Change	% Change
General Fund	34,635,167	32,857,631	1,777,536	5.41%
Tuition & Fees	38,094,416	38,052,520	41,896	0.11%
RTRF	3,892,458	1,696,503	2,195,955	129.44%
Other Special Funds	7,653,614	7,922,552	(268,938)	-3.39%
Other Revolving Funds	2,362,161	2,276,716	85,445	3.75%
Appropriated Federal Funds	291,557	315,557	(24,000)	-7.61%
Total Revenues	**86,929,373**	**83,121,479**	**3,807,894**	**4.58%**

Across all funds, revenues are projected to increase by 4.58%:

- General Fund revenues by $1.7 million, or about 5.41%, as a direct result of increased funding for collective bargaining;
- Tuition and Fees revenues by 0.11%, attributable to the 4% tuition rate increase offset by a 1.5% enrollment decline; and
- RTRF by $2.1 million, as a result of a change in reporting method ($1.2 million) and additional funds received for our Small Business Development Center ($852,857).

EXPENDITURES	FY17	FY16	$$ Change	% Change
Regular Employee Payroll	44,135,657	43,098,683	1,036,974	2.41%
Lecturer Payroll	2,609,567	2,575,416	34,151	1.33%
Student Help Payroll	2,491,711	2,280,767	210,944	9.25%
Other Personnel	1,535,679	1,493,469	42,210	2.83%
Subtotal Personnel	*50,772,614*	*49,448,335*	*1,324,279*	2.68%
Utilities	5,732,814	6,445,115	-712,301	-11.05%
Scholarships, Tuition, Stipends	7,286,552	6,550,000	736,552	11.25%
Other Operating Expenses	23,878,956	22,618,953	1,260,003	5.57%
Subtotal Other	*36,898,322*	*35,614,068*	*1,284,254*	3.61%
Total Expenditures	**87,670,936**	**85,062,403**	**2,608,533**	**3.07%**

Expenditures are projected to increase by 3.07%. Collective bargaining adjustments and minimum student help wage increases are drivers for personnel cost increases. Utility expenses realized in FY16 were less than budgeted and a downward adjustment is made for FY17. Scholarships, Tuition and Stipends expenditures increase as a result of a change in reporting method. All scholarships and stipends are included in FY17, whereas FY16 only included tuition scholarships required by Board policy.

Transfers

FY 2017 is the first year that campuses are receiving funding based on performance. UH Hilo's **performance based funding** will be used to improve recruitment, retention, and graduation outcomes:

- $135,000 for targeted transfer and adult student service to expand freshmen recruitment in key regions and to build transfer and returning adult recruitment;
- $80,000 for improved entry point processes at the admissions and registrar office and new software to enhance tracking for student financial aid satisfactory academic progress;
- $75,000 for piloting non-residential living learning communities, which will build on the success of our current living learning communities program;
- $120,000 for lecturers in upper division courses that are key to timely graduation; and
- $29,000 to enhance WiFi access at a major student gathering area in the covered lanai area of the learning resource center.

Also included in "Other Transfers" is $300,000 for UH Hilo's Intercollegiate Athletics Program. These funds will be used to pay for team travel costs for competitions on Oahu and the US mainland.

	FY17	FY16	$$ Change	% Change
Net Operating	(3,084,533)	(3,426,318)	341,785	-9.98%
Beginning Cash Balance	19,107,182	20,765,241	(1,658,059)	-7.98%
Ending Cash Balance	16,022,649	17,338,923	(1,316,274)	-7.59%
Reserve Requirement	4,505,864	4,311,612	194,252	4.51%
Excess Cash	11,516,785	13,027,311	(1,510,526)	-11.60%

UH Hilo proposes to spend $3.1 million more than its revenues for FY 2017 to cover commitments for FY16 that we will carry forward and for two new one-time expenses described below. The ending cash balance of $16 million for FY 2017 continues to exceed the minimum 5% requirement set in EP 8.210 and satisfies the 16 percent guideline set in RP 8.203.

TUITION AND FEES SPECIAL FUND

	FY17	FY16	$$ Change	% Change
REVENUE	38,094,416	38,052,520	41,896	0.11%

Although the tuition rate is increasing by 4 percent for FY17, it is mostly offset by a decline in enrollment by 1.5 percent. As a result, revenues are essentially unchanged.

EXPENDITURES	FY17	FY16	$$ Change	% Change
Regular Employee Payroll	8,219,628	9,688,445	(1,468,817)	-17.87%
Lecturer Payroll	2,442,067	2,537,416	(95,349)	-3.90%
Student Help Payroll	1,000,747	827,925	172,822	17.27%
Other Personnel	1,263,996	1,134,827	129,169	10.22%
Subtotal Personnel	*12,926,438*	*14,188,613*	*(1,262,175)*	-9.76%
Utilities	4,706,161	5,474,335	(768,174)	-16.32%
Scholarships, Tuition, Stipends	548,952		548,952	100.00%
Other Operating Expenses	14,296,444	12,988,735	1,307,709	9.15%
Subtotal Other	*19,551,557*	*18,463,070*	*1,088,487*	5.57%
Total Expenditures	**32,477,995**	**32,651,683**	**(173,688)**	**-0.53%**

Overall, expenditures are projected to decline by $173,688, a 0.53% decline from FY16 budgeted amounts. Regular employee payroll is projected to decrease, due to overstatement of the FY16 budgeted amount for regular employee payroll. Student help payroll is projected to increase, due to increases in minimum wage and promotion of applied learning opportunities for students. Utility expenses are adjusted downward as a result of actual expenditures in FY16 being less than their budgeted amounts.

Net Operating Income	(3,132,638)
Beginning Cash Balance	11,621,955
Ending Cash Balance	8,489,317
Reserve Held at System	3,376,423
Reserve Requirement	3,812,858
Excess Cash	4,676,459

UH Hilo proposes to spend $3.1 million more than its revenues for FY 2017 to cover commitments for FY 2016 that we will carry forward and to fund two new one-time expenses (see below). Even with this net operating loss, UH Hilo's TFSF cash balance is nearly $8.5 million. This represents approximately 11.13% of their annual expenditures. When combined with the amount held centrally at System ($3,376,423), that total represents 15.56% of their annual expenditures.

Carryover Commitments:

$962,972 - Capital Renewal/Deferred Maintenance (CRDM)

CRDM projects include gym floor refinishing, Pacific Aquaculture (PACRC) roofing, and pharmacy college (DKICP) modular renovation.

$278,666 - energy reinvestment

Energy saving projects include LED retrofits, electricity submeter expansion, and PV systems upkeep.

$1,100,000 – construction contingency funds for Daniel K. Inouye College of Pharmacy (DKICP) building

Funds were allocated in FY 2016 for the contingency fund for the construction of the Daniel K. Inouye College of Pharmacy building but could not be encumbered by the close of the fiscal year. A purchase order has been prepared and is ready for approval in FY 2017.

One-time expenses:

$411,000 - partial debt service payments for Student Housing

UH Hilo's housing enterprise has experienced financial challenges. In 2009, we assumed additional debt service liability to pay for the acquisition of student housing needed to accommodate student housing demand at the time. Recent enrollment decline and slow economic recovery were not anticipated and they have resulted in lower than predicted occupancy rates.

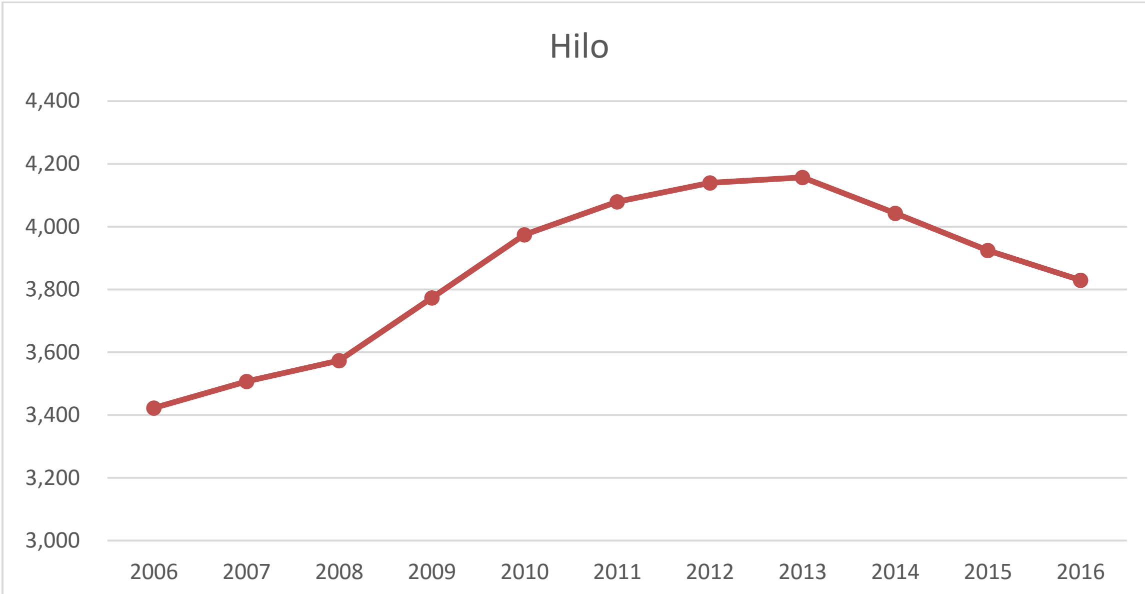
To address this, we are working on enhancing revenue through 1) Conferencing Center commitment for year-round educational group use, 2) Athletics commitment for summer camp and visiting team housing, and 3) an expansion of Living Learning Communities, while we work on rebalancing rates within the UH Hilo housing portfolio for Fall 2017.

$380,000 - conversion from contracted security services to in-house employees

A contract for security guard services must be procured for another year while UH Hilo goes through the recruitment process for 27 University Security Officer positions. The term of the contract, from October 2016 through September 2017, spans two fiscal years. As positions are filled, the need for contracted guard service will decline until there is no need for contracted guards. Funds encumbered but not expended for contracted guard service will be recovered in FY 2018 and will recharge the reserve for one time expenditures made in FY 2017.

Enrollment

Enrollment continues to trend downward, from peak enrollment in 2012, and UH Hilo is projecting a 1.5% decrease in enrollment for FY 2017. To address this, we are expanding recruiting activities to include greater involvement by the academic colleges.



UH Hilo has appointed a new Director of Admissions who is tasked with revamping the marketing strategy and message to increase our ability to attract new freshmen and transfers who can make the most of studying at UH Hilo. The current recruitment plan expands recruitment activity on Hawaii Island and Neighbor Islands, including Oahu, expands community partnership events, and maintains US mainland and local counselor/open house activities.

As part of a unified and integrated recruiting strategy, college faculty, staff and alumni will be involved in recruitment planning and implementation. Colleges will also be asked to take an active role in retaining students to meet college-specific enrollment targets. We will reorganize colleges to reduce the size of the largest college and will provide access to staff who can assist in working with students.

UH Hilo will continue early college initiatives with Kamehameha Schools to explore early college opportunities in West Hawaii. We will continue to facilitate the Kupa ʻAina summer bridge program to serve the growing Puna area population and to collaborate with Hawaiian-focused charter schools both on Hawaii Island and other islands.

Peer tutoring in entry-level English courses and tutor training in entry-level Mathematics course will continue. A Health Professions Student Center will provide academic planning support from selecting an appropriate major and developing a schedule of courses to preparing for graduate admissions exams and practicing for admissions interviews. This builds on two new academic tracks established to broaden the healthcare education pathway – health care administration and community health education. Intensive advising by faculty, peers, and alumni is to be continued in selected majors.

We will design an integrated First Year Experience program aimed at increasing freshman retention from 36% to 42% by 2020. This will include an expansion of the successful freshman Living Learning Communities program to more fully engage students. We will implement Starfish, a student success platform designed to identify students who need intervention through an early alert system. It pinpoints areas of concern, connects students with appropriate services needed and helps assess which services and interventions will keep students on track to persist and graduate.

UH Hilo will serve as one of two pilot sites for the GPS (Guided Pathways System) initiative. Registration is now integrated within the STAR degree audit system for student academic records. It allows students to create course schedules each semester that are designed to guide them toward timely graduation within their declared major or expressed area of interest.

We plan to improve transfer and adult student services support to better serve the needs of those students. Process improvements will be designed for student entry points in admissions and registrar offices and the financial aid satisfactory academic progress tracking system will be software enhanced.

UH Hilo successfully reallocated staffing funding toward high demand areas of study and will continue to utilize lecturer replacements for faculty in key upper division courses critical for timely graduation. The UH Hilo Applied Learning Experience program continues into its fifth year.

University of Hawaiʻi - West O`ahu

Introduction

The University of Hawai`i – West O`ahu offers a distinct, student-centered baccalaureate education that integrates the liberal arts with professional and applied fields. As a diverse and inclusive indigenous-serving institution, UH West O`ahu embraces Native Hawaiian culture and traditions while simultaneously providing an environment where students of all ethnic backgrounds are valued, respected, and supported.

Solidifying the foundation for UH West O`ahu is part of the Hawai`i Graduation Initiative (HGI) Action Strategy 4. Specifically, UH West O`ahu is launching stretch (embedded remedial) courses in English and Math as well as an Honors program. The University is also working on course mapping, strategic uses of financial aid, block scheduling for freshmen, and new advising strategies.

ALL FUNDS

REVENUES	FY17	FY16	$$ Change	% Change
General Fund	14,228,567	13,392,800	835,767	6.24%
Tuition & Fees	16,762,621	15,497,985	1,264,636	8.16%
RTRF	158,000	69,524	88,476	127.26%
Other Special Funds	411,000	1,178,695	878,305	74.52%
Other Revolving Funds	1,646,000			
Appropriated Federal Funds	61,558	23,500	38,058	161.95%
Total Revenues	**33,267,746**	**30,162,504**	**3,105,242**	**10.30%**

General Fund revenues show an increase of $835,767, which is about a 6% increase. This increase is attributable to collective bargaining and additional resources provided by the Legislature in the 2017 Session. In addition, General Fund revenues for FY17 have been augmented with $317,898 in **performance funding**. The performance funding allocated to UH West Oʻahu will support initiatives identified by the Chancellor's Committee on Enrollment and Student Success. The following areas will be supported with this fund:

- UH West Oʻahu Articulation – A specialist position will be hired to support transfer students and establish new articulation agreements between the UH Community Colleges and UH West Oʻahu.
- Distance Education tutoring and supplemental instruction
- Increase Pell participation rates targeting Native Hawaiʻi students via FAFSA completion
- Retention Strategies through Starfish Early Alert, which is a software solution that focuses on student success through an integrated early alert system of interventions.

TFSF revenues show an increase of 8.16%, a result of the 4% rate increase in addition to 4% projected enrollment growth.

EXPENDITURES	FY17	FY16	$$ Change	% Change
Regular Employee Payroll	17,816,686	13,264,692	4,551,994	34.32%
Lecturer Payroll	1,691,000	1,687,273	3,727	0.22%
Student Help Payroll	407,154	202,332	204,822	101.23%
Other Personnel	307,000	921,757	(614,757)	-66.69%
Subtotal Personnel	*20,221,840*	*16,076,054*	*4,145,786*	*25.79%*
Utilities	1,631,000	1,618,226	12,774	0.79%
Scholarships, Tuition, Stipends	2,006,188	2,731,632	(725,444)	-26.56%
Other Operating Expenses	5,075,999	4,303,441	772,558	17.95%
Subtotal Other	*8,713,187*	*8,653,299*	*59,888*	*0.69%*
Total Expenditures	**28,935,027**	**24,729,353**	**4,205,674**	**17.01%**

Although there is a significant change in projected personnel costs from FY16 budgeted amounts to the FY17budget, when compared with the FY16 actual payroll expenditures, FY17 projected payroll increases slightly by 8.49%.

It is the goal for UH West Oʻahu to fill its permanent vacancies to provide additional instructional and support services to accommodate the growth in enrollment. As a result, UH West Oʻahu is actively recruiting.

Net Operating	578,250
Beginning Cash Balance	4,024,125
Ending Cash Balance	4,602,375

Across all funds, UH West O`ahu is projecting to have a positive Net Operating Income in FY17.

TUITION AND FEES SPECIAL FUND

	FY17	FY16	$$ Change	% Change
Revenues	16,762,621	15,497,985	1,264,636	8.16%

As a result of enrollment growth of 4% and a rate increase of 4%, TFSF revenues for West O`ahu are projected to increase by 8.16%.

EXPENDITURES	FY17	FY16	$$ Change	% Change
Regular Employee Payroll	4,233,000	1,260,000	2,973,000	235.95%
Lecturer Payroll	128,000	173,023	(45,023)	-26.02%
Student Help Payroll	262,500	160,524	101,976	63.53%
Other Personnel	180,000	852,569	(672,569)	-78.89%
Subtotal Personnel	*4,803,500*	*2,446,116*	*2,357,384*	*96.37%*
Utilities	1,546,554	1,548,702	(2,148)	-0.14%
Scholarships, Tuition, Stipends	-	-	-	0.00%
Other Operating Expenses	4,050,000	3,716,452	333,548	8.97%
Subtotal Other	*5,596,554*	*5,265,154*	*331,400*	*6.29%*
Total Expenditures	**10,400,054**	**7,711,270**	**2,688,784**	**34.87%**

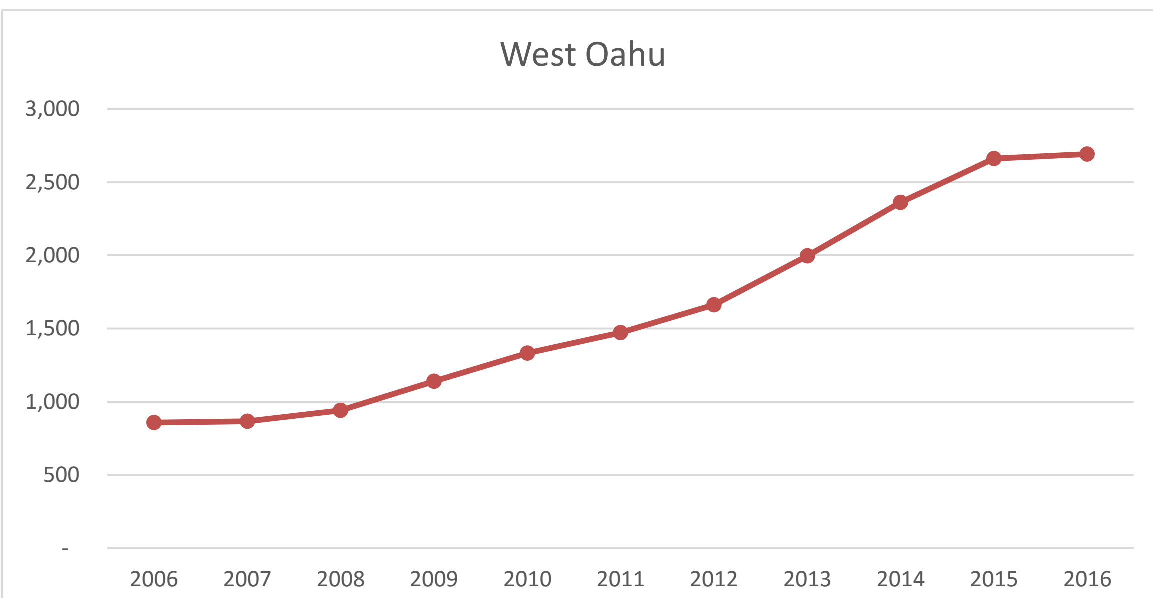
Although there is a significant change in projected personnel costs from the amounts budgeted for FY16 to the FY17 budget, when compared with the FY16 actual payroll expenditures, FY17 projected payroll increases by 16.37%. UH West O`ahu is actively recruiting to fill its permanent vacancies.

Net Operating	(221,655)
Beginning Cash Balance	2,240,631
Ending Cash Balance	2,018,976
Held at System	1,460,473
5% Requirement	1,604,070

For TFSF, there is a net operating loss of $221,655. However, UH-West Oʻahu currently has enough cash balance to accommodate this fiscal imbalance in the short term. Projected ending cash balance is $2,018,976, which is in addition to the $1,460,473 held at Systemwide Support. The 5% reserve requirement for the end of FY17 would be $1,604,070.

Revenues and expenditures will be monitored throughout FY17 via the quarterly financial reports due to the Board of Regents.

Enrollment



Enrollment is projected to continue to increase by 4% for each of the next couple of years. To maintain this growth level, emphasis will be placed on two areas:

- Increased retention rate with investment in Starfish software, which is an early alert/early intervention system which will enable faculty/staff referrals and prompt responses by support services such as academic advising, tutoring, and psychological services.
- Targeted recruitment to focus on incoming transfers

Community Colleges

Budget Summary

The University of Hawaiʻi Community Colleges (UHCC) are dedicated to increasing the educational capital of the State, addressing the needs of underserved populations, and revitalizing and expanding the State's economy. The Community Colleges provide first generation college students, educationally and economically disadvantaged individuals, and under-represented groups a gateway for upward mobility, while providing a highly trained and highly skilled workforce for Hawaiʻi industries.

<u>UHCC initiatives</u>

Hawaiʻi Graduation Initiative

- Strategic target of 5% growth in degrees and certificates each year from 2015 to 2021
- Strategic target of 5% growth in baccalaureate transfers each year from 2015 to 2021
- Strategic target to eliminate all success gaps in graduation, STEM graduation, and transfer for Native Hawaiian, Filipino, Pacific Islander, and low income students by 2021

Enrollment Management

- Enrollment growth targeted on the following five areas
  - Increase the DOE going rate to 65% (DOE system target) by absorbing into the community college 80% of the gap between the current going rate and the 65% target for all public high schools (1,013 students).
  - Increase the rate of adult basic education students enrolling in community colleges by 2% per year (265 students).
  - Increase Pacific Island enrollment in CCs to close the gap between the current 3% and the population 4% level (630 students).
  - Increase the enrollment of adult learners from 2.25% to 4% by 2021 (5,410 students).
  - Increase international students by 2% per year from 2015 to 2021 (314 students).
  - Improve year to year retention from 50% to 65% (4,318 students).
- Enrollment management tactics include
  - Expanded dual enrollment in high schools
  - Improved communication and engagement of students from time of recruitment/application through the first weeks of the first semester
  - Major improvements in student success and student retention
- Student Success

- Total reform of development/remedial education to move from sequential, semester long classes to co-requisite, just-in-time remediation. Full implementation will occur in Fall 2016.
- Guided pathway registration where all students will be placed on a degree pathway and use the pathway to guide their registration so that they can keep on track to graduation
- Increased monitoring and intervention to reduce student dropout
- Improved reentry procedures so that students can re-enroll without going through re-admission

- Workforce Development
  - Development of a workforce and program planning tool using Labor Market Information to better inform students, academic planner, and program managers about the relationship of the existing and planned programs to the State's workforce needs
  - Improvement of the job placement and earnings information in the State's longitudinal data system
  - Expanded offerings in STEM through the ASNS degrees now in place at all campuses and through the USA Funds STEM grant
- Sustainability
  - Completion of campus based sustainability plans
  - Implementation of expanded use of alternate energy, primarily solar and battery storage
  - Implementation of a new performance contract in energy savings to build on the highly successful initiative contract with Johnson Controls

ALL FUNDS

REVENUES	FY17	FY16	$$ Change	% Change
General Fund	132,616,513	124,406,354	8,210,159	6.60%
Tuition & Fees	67,296,325	66,953,012	343,313	0.51%
RTRF	1,702,000	2,396,284	-694,284	-28.97%
Other Special Funds	18,854,000	22,599,411	-1,454,411	-6.44%
Other Revolving Funds	2,291,000			
Appropriated Federal Funds	3,130,675	2,936,000	194,675	6.63%
Total Revenues	**225,890,513**	**219,291,061**	**6,599,452**	**3.01%**

General Fund revenues show an increase of $8.2 million, or 6.6%, as a result of increased funding for collective bargaining. The General Fund projection also includes $1.2 million in UH System performance funds to support the UHCC initiatives described above. Tuition and Fees revenues show a small increase of .51%. Increases in tuition rates are mostly offset by a decline in enrollment. RTRF revenues reflect a decline due to the winding down of expenditures related to a series of large multi-year grants designed to help individuals complete their education and train for jobs in the agriculture, energy and health industries.

Other Special Fund revenue is projected to decrease modestly due to a decline in non-credit enrollment. Non-credit programs are implementing improved business planning to help offset natural fluctuations in the demand for non-credit offerings. All revenue programs are implementing cost center based budgeting for revenues and expenses, in line with internal auditor recommendations, effective July 1, 2016.

EXPENDITURES	FY17	FY16	$$ Change	% Change
Regular Employee Payroll	133,940,359	127,359,439	6,580,920	5.17%
Lecturer Payroll	25,248,333	25,308,308	(59,975)	-0.24%
Student Help Payroll	5,078,877	5,208,641	(129,764)	-2.49%
Other Personnel	2,640,945	2,748,844	(107,899)	-3.93%
Subtotal Personnel	*166,908,514*	*160,625,232*	*6,283,282*	*3.91%*
Utilities	10,844,545	12,260,170	(1,415,625)	-11.55%
Scholarships, Tuition, Stipends	6,321,211	6,276,362	44,849	0.71%
Other Operating Expenses	42,462,966	34,373,495	8,089,471	23.53%
Subtotal Other	*59,628,722*	*52,910,027*	*6,718,695*	*12.70%*
Total Expenditures	**226,537,236**	**213,535,259**	**13,001,977**	**6.09%**

Overall expenditures have increased by 6.09%. Regular Employee Payroll increased by 5.17% as a result of collective bargaining salary increases. Utilities costs went down significantly (11.55%) because of lower cost per kilowatt electricity rates due to the decreased cost of imported oil.

Other Operating Expenses increased by 23.33% due to planned expenditures for equipment, deferred repairs and maintenance (R&M) and one-time facility investments.

- **Equipment Replacement** - $3.25 million is budgeted ($1.0 million carryover + $2.25 million in the base going forward) to reduce the backlog of equipment replacement needs. Once the backlog is eliminated, base funds will be used to establish a sustainable equipment replacement schedule to prevent future backlogs.
- **Deferred R&M** - $1.0 million is budgeted to reduce the current backlog of deferred R&M projects. If the Community Colleges receive an allocation from the University revenue bond authorization, the budgeted funds will be used for debt service payments.
- **One-time Investments** – $2.6 million is budgeted to equip and furnish newly constructed/renovated facilities at Kapiʻolani CC, Leeward CC and Hawaii CC.
- **Development Education Reform**– $2.3 million ($900K carryover + $1.4 million performance funds) is budgeted for costs relating to the new co-requisite model that will fundamentally change the way instruction is delivered to under-prepared students. This effort will be supported by UHCC Performance Funding.

Net Operating Income	(5,720,527)
Beginning Balance	37,776,589
Ending Balance	32,056,062

Net Operating Income (Revenues less Expenditures) is negative for the Community Colleges due to the expenditure of these carryover balances for one-time requirements. These funds were reserved specifically for these needs and the Community Colleges have sufficient funds to cover these one-time costs, with a projected FY17 overall ending cash balance of $32.1 million, which is well above their 5% reserve target of $11.5 million.

TUITION AND FEES SPECIAL FUND

	FY17	FY16	$$ Change	% Change
Revenues	67,296,325	66,953,012	343,313	0.51%

Although the tuition rate is increasing by 5% for FY17, it is mostly offset by a decline in enrollment. As a result, revenue projections show only a 0.51% increase.

EXPENDITURES	FY17	FY16	$$ Change	% Change
Regular Employee Payroll	18,180,955	17,278,583	902,372	5.22%
Lecturer Payroll	316,207	1,359,338	-1,043,131	-76.74%
Student Help Payroll	3,544,920	3,560,416	-15,496	-0.44%
Other Personnel	1,447,901	1,557,928	-110,027	-7.06%
Subtotal Personnel	23,489,983	*23,756,265*	-266,282	-1.12%
Utilities	9,446,000	11,076,995	-1,630,995	-14.72%
Scholarships, Tuition, Stipends	6,198,011	6,256,512	-58,501	-0.94%
Other Operating Expenses	27,284,002	20,697,047	6,586,955	31.83%
Subtotal Other	42,928,013	*38,030,554*	4,897,459	12.88%
Total Expenditures	**66,417,996**	**61,786,819**	**4,631,177**	**7.50%**

Expenditures for lecturers decreased by 76.74% due to the shifting of expenditures to general funds. Overall expenditures (General Funds and TFSF) for lecturers are projected to remain stable. Utilities decreased due to the lowering of electricity rates.

Other operating expenses increased due to equipment, deferred R&M and one-time investments. The **one-time expenditures** contained in the budget total $4.5 million. Once these expenses are accounted for, the Community Colleges' net income is essentially zero – no net gain or loss for the TFSF.

- $1,550,000 in carryover funds is budgeted for equipment at Kapiʻolani CC's new Culinary Institute of the Pacific facility at Diamond Head.

- $500,000 in carryover funds is budgeted for equipment and furnishings at Hawaii CC's new Pālamanui campus in West Hawaiʻi.
- $550,000 in carryover funds is budgeted for IT infrastructure improvements and equipment at Leeward CC's Education Center in Waianae.
- $900,000 in carryover funds is budgeted for transitional costs relating to the Development Education Reform initiative.
- $1,000,000 is budgeted for equipment to reduce the backlog of replacement equipment across all the campuses.

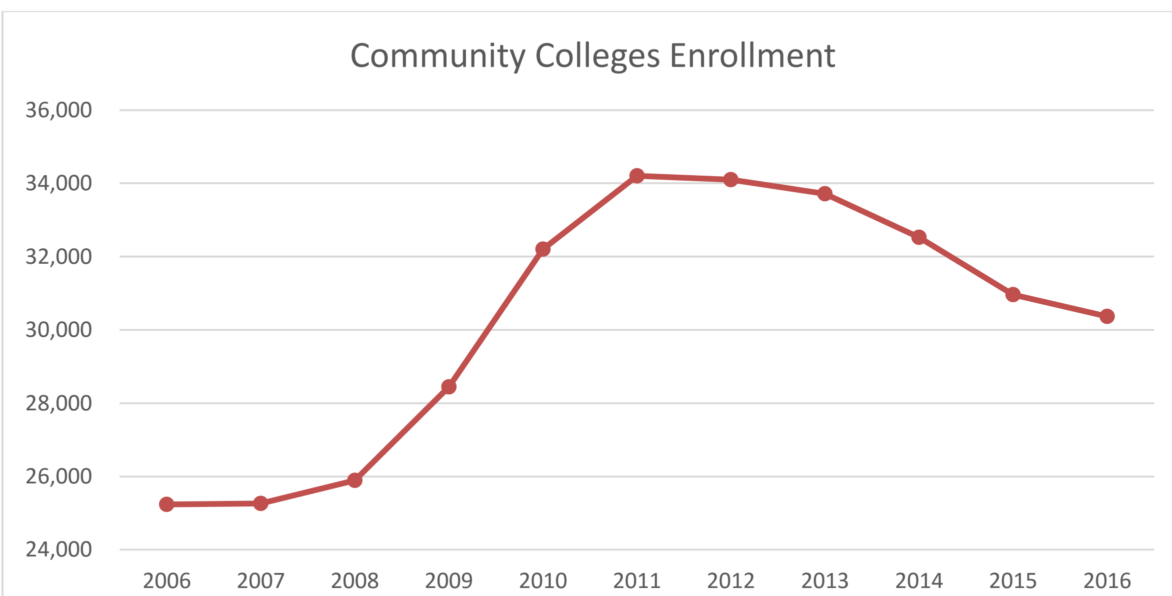
Net Operating	(4,570,527)
Beginning Cash Balance	16,814,443
Ending Cash Balance	12,243,916

Once the $4.5 million in one-time expenditures are accounted for, the net operating income for the Community Colleges is essentially zero.

Even after this reduction to TFSF carryover funds, the Community Colleges will still have a balance of $12.3 million. This is in addition to its 5% reserve held at Systemwide Support. Taken together, Community Colleges would have a reserve level of approximately 10.9%.

Enrollment

Enrollment continues to trend downward. From its peak in 2012, enrollment has declined in part due to the improving economy and record low unemployment rates. The Community Colleges are projecting flat enrollment for 2017 but are anticipating growth in the identified sectors (see above) over the next five years.



Systemwide Administration

On behalf of the Board of Regents, the University of Hawaiʻi System is committed to providing the **vision, leadership, and stewardship** needed to enable the ten University campuses to advance missions that promote distinctive pathways to excellence, differentially emphasizing instruction, research, and service while contributing to a coherent response to the needs of a technologically advanced, globally competitive, and culturally diverse island state.

The Systemwide budget supports 48 offices and programs as well as 454 appropriated general-fund, 38 special-fund, 4 federal-fund, and 15 revolving-fund permanent Full Time Equivalent (FTE) positions. Offices and programs are organized under the Board of Regents Office, President's Office, Vice President for Academic Planning and Policy, Vice President for Administration, Vice President for Budget and Finance and Chief Financial Officer, Vice President for Information Technology and Chief Information Officer, Vice President for Legal Affairs and University General Counsel, and Vice President for Research and Innovation.

ALL FUNDS

REVENUES	FY17	FY16	$$ Change	% Change
General Fund	55,841,600	49,590,637	6,250,963	12.61%
Tuition & Fees Special Fund	740,370	679,720	60,650	8.92%
RTRF	12,059,406	15,304,527	(3,245,121)	(21.20%)
Other Special Funds	2,936,421	2,697,750	238,671	8.85%
Other Revolving Funds	1,418,100	710,010	708,090	99.73%
Appropriated Federal Funds	284,999	379,909	(94,910)	(24.98%)
Total Revenues	**73,280,896**	**69,362,553**	**3,918,343**	**5.65%**

Systemwide is anticipating an overall growth in revenues of $3,918,343 or 5.65%. The most significant change in revenues is in General Funds, which increased by $6.2 million, or 12.61%. This is attributed to a legislative appropriation of $3 million for Athletics, which is being transferred to the Mānoa and Hilo campuses, collective bargaining augmentation of $3.1 million, as well as a separate bill for $712,500 for the Graduation Pathways System.

EXPENDITURES	FY17	FY16	$$ Change	% Change
Regular Employee Payroll	45,697,435	39,811,184	5,886,251	14.79%
Lecturer Payroll	-	-	-	0.00%
Student Help Payroll	1,221,583	1,023,238	198,345	19.38%
Other Personnel	393,114	348,881	44,233	12.68%
Subtotal Personnel	*47,312,132*	*41,183,303*	*6,128,829*	*14.88%*
Utilities	262,443	326,316	(63,873)	-19.57%
Scholarships, Tuition, Stipends	4,482,937	4,447,465	35,472	0.80%
Other Operating Expenses	25,233,904	25,873,131	(639,227)	-2.47%
Subtotal Other	*29,979,284*	*30,646,912*	*(667,628)*	*-2.18%*
Total Expenditures	**77,291,416**	**71,830,215**	**5,461,201**	**7.60%**

The increase in Systemwide expenditures is due to collective bargaining and not operating costs. Systemwide's overall payroll has a net change of $6,128,829 or 14.88%. The net change in regular payroll is attributed to $3,104,960 in collective bargaining increases, $991,734 in new payroll as a result of the transfer of Office of Research Compliance to Systemwide, $862,700 from fringe rate increases of 9.58%, and $59,400 due to a 5.8% rise in the hourly rate for student employment. After taking into consideration these factors, the remaining change in personnel cost growth is $1,110,035 or 2.70%.

Net Operating Income

Overall Net Operating Income is very slightly negative, projecting a loss of $72,204 across all funds for FY17. Net Operating Income would be positive if not for an anticipated increase in expenses in the Risk Management Special Fund (RMSF), due to an estimated $1,000,000 one-time payment in FY17 by the RMSF for legal fees.

Even after this $1,000,000 one-time payment in FY17, the ending balance of RMSF is projected to be approximately $3.5 million. This fund normally operates with a very minimal gain or loss in any given fiscal year, as assessments made to campuses are designed to recover actual expenses.

TUITION AND FEES SPECIAL FUND

	FY17	FY16	$$ Change	% Change
Revenues	740,370	679,720	60,650	8.92%

Systemwide does not have TFSF revenues derived from student tuition. TFSF revenue for Systemwide is attributed to fees from: Late Registration, the Tuition payment plan, interest income, and applications for use of UH facilities for commercial filming. The variance is due to a conservative interest income revenue projection in FY16.

EXPENDITURES	FY17	FY16	$$ Change	% Change
Regular Employee Payroll	1,936,421	3,119,260	(1,182,839)	-37.92%
Lecturer Payroll	-	-	-	
Student Help Payroll	-	-	-	
Other Personnel	-	-	-	
Subtotal Personnel	*1,936,421*	*3,119,260*	*(1,182,839)*	*-37.92%*
Utilities	9,512	-	9,512	
Scholarships, Tuition, Stipends	15,000	-	15,000	0.00%
Other Operating Expenses	7,998,136	6,856,146	1,141,990	16.66%
Subtotal Other	*8,022,648*	*6,856,146*	*1,166,502*	*17.01%*
Total Expenditures	**9,959,069**	**9,975,406**	**(16,337)**	**(0.16%)**

Overall expenditures have decreased by 0.16%. Regular Employee Payroll has declined as a result of transferring a portion of those costs to General Funds. While Other Operating Expenses outpace Revenues, 40% of the tuition and fee expenses are payments towards existing University commitments that are covered by a direct transfer-in of funds. The remaining Other Operating Expenses have increased over last year due to rising annual TouchNet contract payments, and additional customization and modification costs to the existing TouchNet system to better interface with Banner and provide more services to students. In addition, the annual maintenance and licensing fees for Banner, and operational costs for Banner, Kuali and the System Cashier's Office have increased.

	FY17	FY16	$$ Change	% Change
Net Transfers	9,516,089	8,885,627	630,462	7.10%

Among TFSF transfers are campus assessments for the following: UH Foundation contract payment, President's Emerging Leaders Program (PELP) travel, and the eBuilder annual licensing fee. The campus assessments cover the costs of existing contracts and maintenance fees managed by Systemwide on behalf of the University.

	FY17	FY16	$$ Change	% Change
Net Operating	297,390	(410,059)	707,449	-172.52%

Systemwide shows a small positive operating income of less than $300,000 for FY17. As Systemwide's TFSF is predominantly from transfers from campuses to cover corresponding costs of contracts and maintenance fees, NOI will normally net itself close to zero.

RESERVES

In 2015, the Legislature passed Act 236 which requires that moneys from the UH Tuition and Fees Special Fund from each campus shall lapse to the credit of UOH900 (Systemwide). As a result, Systemwide begins the year with an unencumbered cash balance of $101.29 million after $94.19 million in FY16 unencumbered cash balances were swept from the campuses. Of this amount, $16.87 million is held centrally by Systemwide as the 5% TFSF reserve requirement for Hilo, West Oʻahu, the Community Colleges, and Systemwide itself. A total of $79.34 million will be returned to the campuses for inclusion in the FY17 campus operating budgets.

All TFSF Funds in UH	101,290,396
5% Reserve Held Centrally	16,869,653
Transfer-out to Campuses	79,337,589

The following table breaks out the amounts that were transferred to the various campuses at the start of FY17 and the amount held centrally as part of that campus' reserve:

Campus	FY17 Transfer	Central Reserve
Mānoa	41,993,471	
Hilo	14,021,954	3,376,423
West Oʻahu	3,891,556	1,460,473
Community Colleges	19,430,608	10,015,609
Systemwide Support		2,017,148
Total	**79,337,589**	**16,869,653**

Systemwide begins FY17 with $5.083 million in cash. After accounting for FY17's net operating income, the resulting ending cash balance for Systemwide is a healthy $5,380,545, which represents 6.77% of operational costs and is in addition to the $2.2 million held centrally as reserve.

FY17 Beginning Cash Balance	5,083,154
FY17 Net Operating Income	297,390
FY17 Ending Cash Balance	5,380,544
Centrally Held Reserves	2,017,148