

David McClain
President

UNIVERSITY of HAWAII

SYSTEM

UNIVERSITY OF HAWAII
BOARD OF REGENTS

October 15, 2008

MEMORANDUM

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TO: Allan Landon
Chairman, Board of RegentsFROM: David McClain
President

A handwritten signature of David McClain in dark ink.

SUBJECT: General Funds Operating Budget for Fiscal Years 2010 and 2011

ACTION REQUESTED:

The Board of Regents is requested to approve the attached General Funds Operating Budget for the University of Hawaii for fiscal years 2010 and 2011, involving a reduction in the University's general funds budget base of \$13.5 million to \$727.3 million and \$734.3 million respectively, to be financed by a combination of general funds expenditure reductions and a transfer of program expenditures to funding by special, revolving or Federal funds, as described below.

The Board of Regents is also requested to approve, on a contingency basis, additional general funds budget base reductions of \$22.0 million, to \$718.7 million and \$725.8 million respectively, and \$30.6 million, to \$710.2 million and \$717.2 million respectively, for fiscal years 2010 and 2011, again financed by a combination of general funds expenditure reductions and a transfer of program expenditures to funding by special, revolving or Federal funds, as described in this memorandum.

EFFECTIVE DATE:

Upon Board of Regents approval.

BACKGROUND:

As described at the Board of Regents meeting in August, 2008 at Windward Community College, the University has developed a general funds operating budget request for an additional \$35 to \$40 million dollars in each of the next two fiscal years. This request was developed in accordance with BOR policy, via the customary process of (a) Stocktaking followed by (b) a review by a Biennium Budget Advisory Committee including representatives from the Student Caucus, the All Campus Council of Faculty Senate Chairs and the Pūko'a Council as well as the leadership of the baccalaureate campuses and the community colleges, and (c) final decisions by the President.

In mid-September 2008, the University received general funds budget instructions from the Department of Budget and Finance for fiscal years 2010 and 2011. Reflecting the current economic slowdown, these instructions called for the University to develop a general funds operating budget for the next two fiscal years lower than the current fiscal year 2009 general funds operating budget, and encouraged the University to use other sources of funds (special, revolving and Federal funds) to sustain its services to its constituents. A copy of these instructions is provided in Attachment 1.

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The amount of general funds reduction directed was a minimum of \$13.5 million, rising \$8.5 million to \$22.0 million in a more severe scenario, and rising another \$8.6 million to \$30.6 million in the most severe scenario.

These requested reductions come at a time when the University's enrollment for the fall 2008 semester is at an all-time high, at nearly 53,500, an increase of almost 3,000 students from last year's levels. In the 2000 academic year, UH enrollment across all ten campuses was about 44,500.

The University's response to these new instructions has been discussed with the Student Caucus, the All Campus Council of Faculty Senate Chairs and the Pūko'a Council, with the Council of Chancellors, and with the University Community Partnership, an informal body established in 1997 which advises the President.

Based on these consultations and discussions, and the needs of an expanded student body, I have concluded that, in order to meet one-third (\$4.5 million) of the minimum \$13.5 million requested reduction, the University will use anticipated increases in other sources of funds (special, revolving and Federal funds) expected to accrue during the next biennium, as well as carryover balances in these accounts.

To meet the other two-thirds (\$9.0 million) of the requested reduction, the University will reduce general funds spending as described in Attachment 2.

The University anticipates being able to meet the additional funding requirements of the more severe scenario and most severe scenarios, if necessary, via the utilization of anticipated increases in other sources of funds (special, revolving and Federal funds) expected to accrue during the next biennium, as well as carryover balances in these accounts.

ACTION REQUESTED:

The Board of Regents is requested to approve the attached General Funds Operating Budget for the University of Hawai'i for fiscal years 2010 and 2011, involving a reduction in the University's general funds budget base of \$13.5 million to \$727.3 million and \$734.3 million respectively, to be financed by a combination of general funds expenditure reductions and a transfer of program expenditures to funding by special, revolving or Federal funds.

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Attachments

LINDA LINGLE
GOVERNOR



Attachment 1

GEORGINA K. KAWAMURA
DIRECTOR

ROBERT N. E. PIPER
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER
PUBLIC UTILITIES COMMISSION

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION

September 11, 2008

FINANCE MEMORANDUM

MEMO NO. 08-10

TO: All Department Heads

FROM: Georgina K. Kawamura
Director of Finance

SUBJECT: Fiscal Biennium 2009-11 Executive Budget Request and the Program and
Financial Plan for the Period 2009-2015

The following policies and guidelines shall be used in preparing the Executive Budget Request for FY 2009-11 and the Program and Financial Plan (PFP) for the period 2009-2015.

General Background

After several years of extraordinary expansion, Hawaii's growth rates have now settled into a much more modest range. The housing bubble and credit market difficulties continue to have negative reverberations throughout the U.S. economy, and the sharp increases in commodity and fuel costs have had a global impact, particularly on travel and transportation. In Hawaii, we have witnessed a downturn in tourism and construction, two principal drivers of our local economy.

Reflecting the softening economy, general fund tax collections increased by only 1.2% in FY 08. In contrast, the increases for previous years were 8.3% in FY 04, 16% in FY 05, 10.9% in FY 06, and 3.4% in FY 07.

While we had anticipated a certain degree of moderation in the growth of our local economy, the extent of the slowdown was greatly affected by unforeseen developments in the national and global markets. These economic concerns have been a limiting factor on expenditure policies for FYs 08 and 09. As revenue projections were revised downward by the Council on Revenues, appropriate measures were taken to control spending and limit the State's exposure to economic and financial uncertainties.

At the most recent meeting on September 3, 2008, the Council on Revenues retained its previous forecast of July 31, 2008, when the growth rate of general fund tax revenues was

reduced to 1.0% for FY 09, 4.0% for FY 10, and 3.9% for FY 11. Projections for the out-years were between 4.3% and 6.0%.

Budget preparation policies for FB 2009-11 must take into account these revenue projections and the prospect of continued moderation in the economy. In managing the changes brought about by a new fiscal environment, our goal is to achieve fiscal prudence and balance in the upcoming fiscal biennium.

The State's Fiscal Condition

The State's general fund revenues have continued to fall short of projections. Updated revenue estimates by the Council on Revenues for the period covering the current FB 2007-09 through the next FB 2009-11 show that total resources will be insufficient to meet the level of expenditures authorized in the 2008 Legislative Session (including the FY 09 Supplemental Budget and other specific appropriations). The general funds gap is projected to be over \$900 million. Under these extraordinary financial circumstances, immediate and substantial actions are needed to balance the General Fund.

The expenditure side of the State budget continues to show significant growth due to expanded services, collective bargaining costs and fringe benefit obligations. In view of these underlying costs, departments must exercise utmost prudence in planning for their budgets in the upcoming fiscal biennium. As in the past, we shall intensify efforts toward improving efficiency and reducing costs in all areas of State government activities and services.

I. General Policies

The following general policies are hereby provided for the development of the Executive Budget Request for FB 2009-11.

1. As indicated in Finance Memorandum No. 08-09 dated August 26, 2008, preparation of the FB 2009-11 Executive Budget Request began with all departments and agencies conducting a critical review and assessment of their current budget bases. The objective is to determine the essential services that are needed to implement the core functions of each department. Good budgeting requires us to undertake this task regularly and our current fiscal condition demands no less.
2. Given the limited growth in revenues projected for the budget and planning period, substantial adjustments must be made to total expenditures so that the State can live within its means. While budget adjustments and reductions are central to the goal of developing a balanced budget, they will not be the only course. We will be pursuing other appropriate fiscal measures to supplement budgetary actions.
3. For operations, the Biennium Budget will be based on FY 09 appropriations from Act 158, SLH 2008, minus necessary adjustments. Individual departmental budget ceilings are established for all departments by the Department of Budget and Finance (B&F). Under their respective budget ceilings, departments are authorized and encouraged to recommend trade-offs and transfers within and among programs under their purview to reflect the departments' current priorities and changing conditions.

4. Departments with general fund support are required to develop and submit their budget requests at three levels of operation and funding limit. These contingency plans are needed to realign State government programs and expenditures with resource availability as necessary. More detailed instructions are provided in Attachment 2, *General Budget Guidelines for Operating and Capital Improvement Projects, FY 2009-11 and the Planning Period*.
5. In light of the limited availability of general funds, departments should maximize efforts to use non-general funds, as appropriate, to support their programs. Federal funds, special funds, and other available funding sources should be considered as a replacement for general funds. Except as otherwise provided by law, special or other funds authorized to receive general revenue receipts, or general fund appropriations, should consider the feasibility of discontinuing (deleting) such general fund support. As necessary, separate legislation should be proposed to discontinue such support and to transfer remaining general fund balances.
6. For the upcoming biennium, the Capital Improvement plan shall focus on an expanded Major Repair and Maintenance program to get projects out quickly to address the current backlog and, at the same time, provide a stimulus to Hawaii's economy. Planning, design or construction of new buildings to be funded with general obligation bonds is greatly discouraged.
7. Pursuant to Section 37-68(1), HRS, any proposal for new programs, regardless of funding sources, must demonstrate that such programs are appropriate functions of State government and can be implemented by government as cost-effectively as by the private sector.
8. Departments should be prepared to initiate necessary enabling legislation, or appropriate rule changes, to coincide with budget requests, as applicable.
9. As a reminder, legislative proposals containing specific/emergency appropriations or affecting revenues must obtain clearance from the Governor's Policy Office. The B&F analysts should be informed as part of the budget review. (Form A, *Request for Operating Budget Adjustment*, should be used to provide the necessary information to justify the request.)

II. Submission Requirements and Format

1. Biennium Budget requests shall be submitted according to the requirements and formats as specified in the attachments.
2. All budget submissions will be subject to review and evaluation by B&F and the Governor. Worksheets and other supporting details may be requested and should be made available upon request.

III. Due Dates

The following must be provided to this office:

- By August 1, 2008: Completed Form CB-1 for Collective Bargaining non-salary cost data.
- By August 29, 2008: Proposed changes to Program Performance Measures, as applicable.
- By October 10, 2008: Three budget packages to reflect the three funding levels. Each package includes two copies of each budget submission, including Forms OB, A, B and C (relating to the operating budget) and Tables P, Q, R, Form S and Form PAB (relating to the CIP budget). In addition, electronic files of Forms B, C and S should be transmitted to your B&F analyst.
- By December 10, 2008: 1) Two copies of updated BJ Summary Tables in hardcopy/eBUDDI/Excel files/other electronic files; 2) two copies of the Budget Narrative; 3) updated Performance Measures in eANALYT; and 4) two copies of Tables P and Q, updated in eCIP, and Form PAB. All items should reflect the final Executive Biennium Budget Request.
- By January 5, 2009: Updated budget details in eBUDDI/Excel files/other electronic format matching the Table BJ summary amounts, and two copies of Table R, updated in eCIP. All items should reflect the final Executive Biennium Budget Request.

Departments will be notified later of the timetable for B&F recommendations, departmental rebuttals, and Governor's decisions on the Biennium Budget.

Attachments

- Attachment 1: Departmental Budget Ceilings
- Attachment 2: General Budget Guidelines for Operating and CIP
- Attachment 3: Additional Operating Budget Detail Guidelines
- Attachment 4: Collective Bargaining Cost Data (sent out earlier under separate Finance Memorandum 08-07, dated May 14, 2008)
- Attachment 5: Operating Budget Submission (Forms OB, A, B, C)
- Attachment 6: CIP Submission (Tables P, Q, R, Form S, Form PAB)
- Attachment 7: Instructions for Preparing Program and Financial Plans and Program Budget Requests (September 2008)

UNIVERSITY OF HAWAII
FISCAL BIENNium 2009-2011
RECOMMENDED GENERAL FUND BUDGET REDUCTIONS

Date: 10/13/08

Attachment 2

CAMPUS	PROGRAM ID	DESCRIPTION OF REDUCTION	FTE	AMOUNT
UH Manoa	UOH 100	Reduction In Electricity Expenditures By Implementing Conservation Measures	0.00	(3,000,000)
		Deferral Of Filling Vacant Positions	0.00	(2,253,523)
		Transfer of funding for General Fund program expenditures to special, revolving, Federal or other available sources of funds	0.00	(2,619,432)
		Sub-total UH Manoa	0.00	(7,872,955)
UH Hilo	UOH 210	Non Instructional Program Salaries	0.00	(243,304)
		Non Instructional Program Non-Salaries	0.00	(141,020)
		Instructional Programs Salaries	0.00	(386,302)
		Instructional Programs Non-Salaries	0.00	(41,947)
		Transfer of funding for General Fund program expenditures to special, revolving, Federal or other available sources of funds	0.00	(405,153)
		Sub-total UH Hilo	0.00	(1,217,726)
UH West Oahu	UOH 700	Deferred Hiring of Instructional Positions	0.00	(127,504)
		Transfer of funding for General Fund program expenditures to special, revolving, Federal or other available sources of funds	0.00	(63,574)
		Sub-total UH West Oahu	0.00	(191,078)
UH Community Colleges	UOH 300	Honolulu CC - Casual/Temporary Personnel	0.00	(127,428)
	UOH 310	Kapiolani CC - Lecturer Replacements for Curriculum Development, Program Articulation, Accreditation/Strategic Planning	0.00	(161,829)
	UOH 320	Leeward CC - Current Expense Budgets of Various Programs	0.00	(120,867)
	UOH 330	Windward CC - Counselor Vacancy	0.00	(56,917)
	UOH 400	Hawaii CC - Reduction of SAT and COMPASS Test Preparation Courses	0.00	(85,807)
	UOH 500	Maui CC - Campus Security, Dormitory Security and Student Assistants	0.00	(91,329)
	UOH 600	Kauai CC - Casual Payroll and Travel	0.00	(54,261)
	UOH 800	All Campuses - Electricity Base Budget Appropriations	0.00	(854,446)
	UOH 906	CC Systemwide - Position Vacancies	0.00	(285,946)
	UOH 906	All Campuses - Enrollment Growth Funding	0.00	(500,000)
	UOH 800	Transfer of funding for General Fund program expenditures to special, revolving, Federal or other available sources of funds	0.00	(1,166,152)
		Sub-total UH Community Colleges	0.00	(3,504,982)
UH Systemwide Programs	UOH 900	System-wide Information Technology Services and Support	0.00	(228,943)
		System-wide Human Resources, Fiscal, Student Affairs, Legal and Academic Support Services	0.00	(471,760)
		Sub-total UH Systemwide Programs	0.00	(700,703)
		Total UH General Fund Reductions	0.00	(13,487,444)