



UNIVERSITY
of HAWAII*
SYSTEM

David McClain
President

UNIVERSITY OF HAWAII September 13, 2007
BOARD OF REGENTS

MEMORANDUM

TO: Kitty Lagareta
Chairperson, Board of Regents

FROM: David McClain *DMcClain*
President

SUBJECT: Supplemental Budget 2008-2009

07 SEP 13 P2:19

I am forwarding for the Board's consideration and approval at its meeting on September 27-28, 2007 the attached Supplemental Budget for the fiscal year 2009, which begins July 1, 2008 and concludes June 30, 2009. The Supplemental Budget contains requests to the executive and legislative branches for funding for operations (general funds), and for capital improvement projects (CIP funding, typically financed with general-obligation bonds).

An earlier version of this budget was presented to the Board for its information in the Regents meeting of August 24, 2007. The current recommendation differs only slightly from what was presented at that time. The operating budget amount I am recommending is now \$30.6 million, up from \$30 million one month ago. The CIP request is \$365 million; in August the requested CIP amount was \$359 million.

Guidance in the preparation of this budget request was provided to campuses in a memorandum, dated May 29, 2007, which was prepared by Vice President/CFO Todo. As this is not a biennium budget year, we are limiting consideration to items not funded from our biennium budget request submitted last year, plus new items of an urgent nature (e.g., additional funds for student health and safety).

As we discussed in August, the Board of Regents' Biennium Budget request for operating funds totaled \$39 million in fiscal year 2007-2008 (FY 08), and \$58 million in fiscal year 2008-2009 (FY 09). The University received \$26 million (\$13 million less than requested) and \$37 million (\$21 million less than requested). The Board's Biennium Budget request for general-obligation-bond-funded capital improvement projects totaled \$268 million in FY08, and \$274 million in FY09, a total of \$542 million. The University received \$183 million in CIP funds in FY08, and \$2 million in FY09, for a total of \$185 million (\$357 million less than requested).

The campus recommendations for the operating budget for FY 2009 total some \$52 million in general funds, substantially above the \$21 million shortfall noted above. As noted, I am recommending \$30.6 million.

The campus recommendations for capital improvement funds total some \$504 million funded by general obligation bonds, again above the \$357 million shortfall. I am recommending \$365 million.

The \$3 million in special funds is being requested; this is simply raising a ceiling on a special funds account.

About \$7 million of the total campus operating request is for repair and maintenance funding, and I have shifted that to the "Capital Renewal and Deferred Maintenance" item in CIP funding, which has consistently been one of the Board's leading priorities. \$17.5 million for classroom improvements and repairs on the Mānoa and community colleges campuses also have been moved from operating requests to the capital renewal and deferred maintenance line in the CIP account.

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Many requested campus items, while important, are more appropriately included in the 2009-2011 Biennium Budget, which will be presented to the Board in September 2008. This includes a number of items identified by campuses as important for sustaining their accreditation in the years ahead.

Changes from the Budget Presented in August

Of the additional \$600 thousand in the operating funding request, \$400 thousand reflects two areas, educational leadership in the public schools, and support for innovation initiatives, in which preliminary conversations with legislators and executive branch representatives have indicated an interest in having the University play a role. Recent discussions with the UH Mānoa campus leadership indicate they wish to be more specific about the focus of the funding originally requested for Initiatives to Enhance Access for Native Hawaiians. As a result of these discussions, I have also added another 10 positions to the amount of funding requested for Initiatives to Enhance Access for Native Hawaiians (making the total for this line item 14 positions), and have increased the total dollar amount by about \$200 thousand.

I have divided the recommended operating budget request into three roughly equal tiers, anticipating requests to do so typically received from the executive branch in the fall and the legislative branch in the spring. In allocating recommended projects to tiers one, two and three, I have used and respected priorities advanced by Mānoa, Hilo, West O'ahu and the community colleges, and have provided priorities for items requested by the UH System.

The additional \$6 million in the CIP request reflects mainly two projects at UH Hilo. \$3.7 million in planning and design funds for student housing have been included, but only as a contingency in case private funding is not available. \$5.5 million in planning and design funding for a \$66 million College of Pharmacy building has also been included, based on my review of this matter with Dean Pezzuto. This addition to funds requested has been offset by noting that a few other items (e.g., UH Mānoa, Energy Conservation Lighting Retrofits, \$2.5 million) are already counted in the UH System totals.

I also have indicated my recommended priority for capital improvement project funding. For projects which were in last year's biennium budget, I have kept their priority at or above what it was last year; for new projects, I've prioritized them based on my perception of the urgency of the project. Typically, I have followed campus priorities, except in the case of the UH Hilo Hawaiian Language building, which I have given a higher priority than did the campus.

My recommendations reflect the State of Hawai'i's evolving revenue prospects, as well as the need to be accountable for the expenditure of the funds requested. On August 28, the Council on Revenues issued a revised forecast indicating its expectation that state revenue will grow 5.7 percent in the current fiscal year, about 0.3 percentage points less than expected in June, and 3.76 percent in fiscal 2009, again about 0.3 percentage points less than previously forecast. Each percentage point of growth equates to about \$45 million in tax revenue.

I believe these changes are sufficiently minor, and the University's case for obtaining state funding for operating purposes and capital improvements is sufficiently strong, that I have made no downward modification to the August requested amounts; in fact, I have increased them both very slightly, by 1%-2%.

The Council of Revenues will meet twice more before the legislature votes on the budget, in December 2007 and March 2008.

A complete spreadsheet containing descriptions of the operating requests received is attached, along with an indication of campus priorities, which of those initiatives I am supporting, and at what level, and in what tier.

Similarly, a complete spreadsheet of capital improvement funds requested is attached, with my recommendations.

Attachments

c: Interim Executive Administrator and Secretary of the Board Pang