Fiscal Biennium 2015-2017 Budget Instructions

Pursuant to Board of Regents (BOR) policy Section 8-3, the following instructions provide University System guidance and the process for the preparation of campus operating and capital improvement budgets for Fiscal Biennium (FB) 2015-17, which begins July 1, 2015 and ends June 30, 2017. The BOR has approved the 2015-2017 Biennium Budget Policy Paper (BBPP), which sets forth the environmental context for budget building and general program, policy and management objectives, and institutional priorities to guide the preparation of the biennium budget. The most significant difference from past budget development, is the adoption of a holistic approach for FB2015-17. Accordingly, the strategy for development of the University System biennium budget will be consistent with the following principles:

- The biennium budget will be grounded in the University’s strategic directions and priorities; and
- Consideration of all revenue sources will guide the biennium budget development strategy, including an evaluation of each unit’s base budget and their respective operating reserves in conjunction with any requests for additional funds.

For the purposes of these instructions, “unit” is defined as the major program budget units, including: Mānoa (100, 110 & 881), Hilo (210 & 220), West O’ahu (700), the Community College System (800), and Systemwide Programs (900).

**Step 1 -- Review of FY2014-15 (FY15) Financial Projections and Initiatives**

Following the 2014 legislative session, each unit will be provided a projection of their operating revenues and expenses for FY15 (July 1, 2014 to June 30, 2015) based on the assumptions in the BBPP and actual FY15 appropriations. Each unit shall review these projections for reasonableness and describe the major initiatives underway through FY15 to advance the strategic directions of the University and improve efficiency. Due to the urgency of providing a safe environment for all students, faculty, and staff, all campuses will need to reallocate tuition revenues that become available in FY15 towards achieving full compliance with Title IX and VAWA requirements (Part of 21CF).
Step 2 -- Calculation of Operating Reserve for FY2014-15 (FY15)

Attachment 1 contains the proposed Executive Policy on Operating Reserves. Each unit will be provided a calculation of estimated operating reserves as of June 30, 2015, based upon the proposed Executive Policy. If a campus cannot achieve these minimum operating reserves, the Chancellor shall develop a plan to attain a minimum operating reserve as part of their biennium budget request. If a campus has or requires operating reserves greater than 16 percent as outlined in the BOR’s Policy on Operating Reserves, the Chancellor shall justify the purposes for which such additional reserves shall be used as part of their FB2015-17 biennium budget request.

Step 3.1 – Calculation of FB15-17 Base Operating Budget

The following assumptions will be considered by each unit in the development of their FB2015-17 base operating budget revenues and expenditures:

- Fall 2015 and Fall 2016 student enrollment projections will be flat at all campuses, except West O’ahu;
- Tuition rates will not increase beyond the 2014-15 levels set in the present tuition schedule, pending further review and consideration by the BOR as part of FB2015-17 biennium budget development;
- Mānoa, Hilo and West O’ahu will allocate at least 19 percent of FY15 tuition revenues toward institutional aid in FY16 and 20 percent of FY16 tuition revenues toward institutional aid in FY17, whereas the Community College campuses will allocate 11 percent of tuition revenues toward institutional aid in both fiscal years;
- $14M of general funds will replace $14M of tuition revenues being used for faculty salary restoration; and
- Utility rates and usage will be projected by each campus for each fiscal year in FB2015-17 based upon the last two fiscal biennia (FB11-13 and FB13-15), factoring in cost savings from energy conservation efforts and new facilities coming online.
Step 3.2 – Calculation of FB15-17 Capital Improvement Project (CIP) Budget

The following should be considered by each unit in the development of their FB2015-17 CIP budget revenues and expenditures. Note that considerations that relate to legislative appropriations may be adjusted as more information becomes available:

- The legislature will continue to appropriate general obligation bond funds for annual capital renewal needs and for major renovation and modernization;
- $14M of tuition revenues will be re-allocated from salaries to debt service for revenue bonds to address deferred maintenance, with the exception of the West O’ahu campus, which shall retain its proportionate share of tuition revenues as it has no deferred maintenance; and
- The BOR moratorium on new construction continues for the FB15-17, with limited exceptions as previously approved by the BOR.

Step 4 – Investment in Strategic Directions and Performance Improvements

After the calculation by each unit of their FB15-17 base operating budget and CIP budget requirements, each unit will delineate a priority list of proposed additional investments in program enhancements that align with and advance the University System’s Strategic Directions for 2015-2021. A separate form will be provided for this purpose, and will request details such as: description of the program enhancement; how the proposed additional investment will advance specific strategic direction(s); the means of finance (new general funds or tuition increase beyond 2014-15 levels) of such additional investment and the projected return on investment; and specific measures to evaluate program outcomes.

In addition, units will describe their plans to increase productivity and efficiency over the current state. Examples of such plans could be:

- Plans to recruit more students, including non-residents;
- Plans to reduce costs through enhanced use of technology;
- Plans to eliminate classes, degrees and /or programs with low enrollment that are not high priority;
- Plans to consolidate administrative units; and
- Other plans to increase productivity and efficiency or reduce costs.
Each unit will be provided a set of productivity and efficiency measures for 2015-2021. These measures will be used to guide the allocation or reallocation of unit resources and/or to reward achievement of performance targets that advance the University System’s Strategic Directions.

**Step 5 – Next Steps**

FB2015-17 budget proposals from the units will be based upon final instructions and a timetable, which will be transmitted to the units prior to the end of the Spring 2014 semester. These final instructions, in conjunction with the results of the 2014 legislative session and the BOR’s determination of tuition rates for the 2015-2017 Academic Years, will guide the development of the University System’s FB2015-17 proposal. Note that these various factors may result in reallocation of general funds between major program budget units. The University System leadership will engage in additional public discussion about the FB2015-17 budget proposal at a BOR Workshop in August 2014, with the goal of final review and approval of the FB2015-17 budget proposal at the September 2014 BOR Meeting to meet late September 2014 deadlines for budget submissions to the Governor.